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ABSTRACT

This document concerns the Hearings of the Special Subcommittee on Education of the Committee on Education and Labor of the House of Representatives, Ninety-third Congress on Higher Education Loans. The two bills discussed are: (1) a bill to amend the insured student loan provisions of the Higher Education Act of 1965 to provide allowances to institutions for their costs in connection with such programs; (2) a bill to amend the student loan provisions of the National Defense Education Act of 1958 to provide for cancellation of student loans for service in mental hospitals and schools for the handicapped. Appendixes to the document include: (1) official correspondence relating to student aid officers responsibilities under the guaranteed student loan program; (2) regulations for application for federal interest benefits and student affidavit; (3) statistics related to the guaranteed student loan program prepared by the U. S. Office of Education; (4) miscellaneous correspondence, and other documents; (5) changes in the existing laws proposed to be made by the subcommittee amendment of H. R. 12523, 93rd Congress; (6) guaranteed student loan program, monthly loan volumes (table); and (7) issue paper, guaranteed student loan program. (Author/KE)

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HIGHER EDUCATION LOAN PROGRAMS

HEARINGS

BEFORE THE

SPECIAL SUBCOMMITTEE ON EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES
NINETY-THIRD CONGRESS
FIRST AND SECOND SESSIONS

ON

H.R. 68, H.R. 314, and H.R. 12523

BILLS TO AMEND THE GUARANTEED STUDENT LOAN PROGRAM (TITLE IV, PART B), AND THE NATIONAL DIRECT STUDENT LOAN PROGRAM (TITLE IV, PART E) OF THE HIGHER EDUCATION ACT OF 1965, AS AMENDED

HEARINGS HELD IN WASHINGTON, D.C. APRIL 3, 4, AND JULY 26, 1973; FEBRUARY 5, 13, 14, 15, AND 26, 1974

Printed for the use of the Committee on Education and Labor

CARL D. PERKINS, *Chairman*

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DEPARTMENT OF HEALTH
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

2

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HIGHER EDUCATION LOAN PROGRAMS

TUESDAY, APRIL 3, 1973

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D. C.

The subcommittee met at 10:15 a.m., pursuant to notice, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Burton, Brademas, Lehman, Benitez, Dellenback, Esch, Kemp, and Huber.

Staff Present: Jim Harrison, staff director; Elnora Teets, clerk; Rosanne Aceto, assistant clerk, and Robert Andringa, minority staff director.

[Texts of bills follow:]

[H. R. 68, 93d Cong., 1st session.]

A BILL To amend the insured student loan provisions of the Higher Education Act of 1965 to provide allowances to institutions for their costs in connection with such program

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 428 of the Higher Education Act of 1965 is amended by adding at the end thereof the following:

"(e) The Commissioner may pay to each eligible institution an allowance for each fiscal year which may not exceed 1 per centum of the amount of loans made to students at that institution for that year which are insured (1) by the Commissioner under this part or (2) by a State or nonprofit private loan insurance program (covered at the time the loan was made by an agreement under subsection (b))."

[H. R. 314, 93d Cong., 1st sess.]

A BILL To amend the student loan provisions of the National Defense Education Act of 1958 to provide for cancellation of student loans for service in mental hospitals and schools for the handicapped

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 205 (b) (3) of the National Defense Education Act of 1958 (20 U.S.C. 425 (b) (3)) is amended by redesignating paragraph (B) as paragraph (C) and by inserting after paragraph (A) the following new paragraph:

> "(B) shall be canceled for service as a worker (other than a full-time teacher) in a public or other nonprofit mental hospital or school for handicapped individuals (including mentally retarded, hard of hearing, deaf, speech impaired, visually handicapped, seriously emotionally disturbed or other health impaired individuals who by reason thereof require special education) in a State, at the rate of 10 per centum of the total amount of such loan plus interest thereon for each year of such service in a hospital, or for each complete academic year or its equivalent (as determined under regulations of the Commissioner) of such service in a school, as the case may be, except that, for the purposes of any cancellation pur-

suant to this paragraph, additional 50 per centum of any such loan (plus interest) may be canceled but nothing in this paragraph shall authorize refunding any payment,".

SEC. 2. The amendment made by the first section of this Act shall apply with respect to service performed after the date of the enactment of this Act, whether the loan was made before or after such enactment.

Mr. O'HARA. The Special Subcommittee on Education of the House Committee on Education and Labor will come to order.

The legislation on which we will first take testimony this morning is H.R. 68, a bill to permit the Commissioner of Education to pay institutions of higher education amounts up to one percent of the amounts loaned to students of that institution under the guaranteed loan program.

This administrative expense payment is meant primarily to meet the costs the institutions will incur in conducting needs analyses as required under the statute setting up the guaranteed loan program.

Our witness today will be Mr. Richard Tombaugh, speaking on behalf of the National Association of Student Financial Aid Administrators.

I have already advised Mr. Tombaugh, and he has concurred enthusiastically in this procedure, that as soon as a quorum of the Subcommittee is present, we will take a short recess in the hearing, in order to move into markup session, take up and, I trust, dispose of, H. Res. 204, a resolution pertaining to the family contribution schedule under the basic opportunity grant program.

Upon the conclusion of our action on that resolution, we will return to Mr. Tombaugh and conclude this hearing.

Mr. Tombaugh, we would be pleased to hear from you with respect to H.R. 68.

STATEMENT OF RICHARD L. TOMBAUGH, EXECUTIVE SECRETARY, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. TOMBAUGH. Thank you.

We are pleased to have the opportunity to appear before you this morning and provide our thoughts on H.R. 68, H.R. 314, and related other matters affecting the Federal student financial programs.

First, with reference to H.R. 68. In the preparation and debate on the Education Amendments of 1972, the Congress recognized the substantial increase in the responsibility of the educational institution with the advent of financial need determination in the guaranteed student loan program.

Accordingly, the conference committee agreed to the provision of an administrative cost allowance to the institution for partial reimbursement of direct and indirect expenses related to the program. The agreed to provision called for up to 1 percent of the loan volume attributable to any one institution during a fiscal year, the exact amount to be determined by the Commissioner of Education.

Unfortunately, in the hectic aftermath of the marathon conference committee deliberation, this language was inadvertently omitted from the final print of the legislation. Despite the fact that the conference report provides the rationale for this administrative cost allowance, it never became law.

H.R. 68, introduced by Chairman Perkins, is intended to correct this omission. We would speak in support of this legislation for the following reasons: (1) Although delayed after 2 months until this past March 1, 1973, the requirement of financial need determination by each institution began in mid-February. Schools are now investing significant professional and clerical time and effort to meet this added responsibility. We would estimate that the new requirements cause three times the investment of institutional resources, both time and effort, previously required.

(2) In order that you might more fully appreciate the cost to the schools, allow me to review the functions and expenses associated with the program over and above the need assessment, for which no cost allowance has been provided previously.

(a) The financial aid office, the registrar, or the admissions office must verify the student's admission or current enrollment in the institution.

(b) The reasonableness of the student's projected costs must be evaluated in terms of the normal expenses for attending the institution.

(c) The aid office must verify the other financial assistance reflected on the student application, supplementing that report when necessary.

(d) The expected graduation date must be projected as accurately as possible, requiring verification by the registrar or academic department. Such information is critical to effective collection efforts by the lender.

(e) The school must provide semiannual status reports on every student with loans outstanding until graduation or termination. This report includes enrollment status, as well as date and cause of termination; in smaller schools a substantial personnel effort is involved; and in larger schools a costly computer expense is necessary.

(f) In addition to these required functions, the institution provides a substantial investment in staff time for the transmittal of program information and in the counseling of students with regard to the proper completion of the several forms required. This task frequently falls to the institution because of the interrelationships with other aid programs and the physical accessibility of the aid officer over that of the lender in the student's home community.

(g) The institution also finds it necessary to regularly assist high school personnel and lenders in the dissemination of program information. We have also found it necessary to spend time in the encouragement of lender participation to enhance student access to guaranteed loans. Schools are also regularly involved in the tracing and motivation of delinquent borrowers.

(3) Not incidental to the personnel costs is the school expenditures for equipment, supplies, printing, and postage resulting from the administration of the program. There are also travel costs to OE meetings for schools and lenders.

While we recognize that some of these functions fall within the normal responsibility of the institution to its students, many of the services rendered go beyond that obligation and warrant partial federal compensation.

The association has considered other methods of reimbursement, including the provision of a flat payment per application. The flat payment of perhaps $10 per form processed has some advantages:

1. It covers not only the approved loans, but the disapproved ones as well, which are no less expensive for the school to process.

2. It more equitably reimburses those schools having a preponderance of small loans, which cost as much to process as the larger ones.

On the other hand, the percent of approved loan volume seems to be preferable because:

1. It provides a more feasible and inexpensive means of monitoring and computing the amount due each school, in that loan volume is cumulated by fiscal year on USOE program records. There are currently no records maintained on disapproved loans, which would require that this school would have to tabulate all the loans they processed, and involve even more time and expenditure on their part.

2. For most schools, the larger loans will average out the smaller ones and provide cost reimbursement approximating $10.00 per application.

For these reasons, we believe that H.R. 68 is the most appropriate approach at this time. However, there are two changes we would like the subcommittee to consider in reporting out this bill.

Because of the significant institutional investment in staff and materials to administer this program, it would add substantially to our ability to plan if greater certainty of level of reimbursement could be provided especially in these days of agency budgetary curtailment.

Changing the "may" to "shall" and deleting the phrase "not to exceed" would do much to enhance the predictability of the cost allowance if the subcommittee believes such changes are justified and saleable.

We would certainly respect your collective judgment in this respect. This concludes our comments on H.R. 68. I would like to add, off the record, if I might, that we recognize the desirability in a political sense of going with the bill in the same form that it was approved in conference and recognize the possibility the Senate might well not go along if there are substantial changes.

So, we would respect your judgment in terms of that appropriateness of making any changes in the ball, and risking the chance of losing the reimbursement entirely. That is why we are basically supporting it with these suggestions.

I have comments on other things, but I thought we might stop for questions on H.R. 68.

Mr. O'Hara. I think that would be a good idea. I know you have comments on 314 as well, but let's talk about H.R. 68.

If we took the position the conference agreed on with respect to this matter, what would be the annual cost? Do you have any figures on that, and how much might that work out to per approved loan?

Mr. Tombaugh. Last year, according to USOE figures, there were 1,256,000, approximately, separate loans insured by the Federal Government or the State agencies, and USAF. The volume on those loans was $1,301 million.

So, it is approximately an average of just a little over $1,000 a loan and 1 percent would be $10 per application, or in that neighborhood.

It was $1,301 million, that is their official estimate of the loan volume.

Mr. O'HARA. One percent of that then would be $13 million.

Mr. TOMBAUGH. Right.

Mr. O'HARA. At about $10 per loan?

Mr. TOMBAUGH. It would come out a little over $10 per loan approved. Of course, there are an indeterminate number of loans processed by the schools which never see the light of Federal insurance for various reasons.

That is one of the advantages of using the flat rate per application processed and we recognize that advantage in that it does cost the school just as much to process one that never gets insured as one that does.

The difficulty in monitoring what any one school should receive on that basis would seem to us to be very difficult, and would require all sorts of additional recordkeeping that we are ill prepared to lend and, by basing it on the percentage of the loans insured, it is a very simple matter for USOE to accumulate these figures on an annual basis for the schools.

Mr. O'HARA. It seems to me, just as a matter of legislative tactics, there are several ways we can approach it. If we approach it as a technical amendment simply to put into the law what the conferees meant to put into the law last time and agreed upon and just somehow or other did not get in there, then it seems to me we can sort of whiz it through.

If, on the other hand, we start looking at it in terms of, well, are there better ways of doing this, shall we change "may" to "shall", and such, not only do we run into potential troubles with the Senate——

Mr. TOMBAUGH. With the House as well.

Mr. O'HARA. Yes, I am not so sure——

Mr. TOMBAUGH. That is the very reason we have only mentioned the possibility and have not taken a very strong stand on it. We are only concerned that the Commissioner does in fact implement this when it says he may and that the reimbursement is a realistic one in terms of the costs entailed.

If it goes through as "may" and "not to exceed", we will work like the dickens with the Commissioner's office and attempt to work it as you intended.

Mr. O'HARA. Right.

Mr. Dellenback, do you have any questions to direct to the witness?

Mr. DELLENBACK. Thank you, Mr. Chairman.

Mr. Tombaugh, what is the maximum that any one school receives in loans or handles in loans, do you have any approximate figure on that?

Mr. TOMBAUGH. No, I do not. I am sure it is obtainable through the guaranteed loan people. I would be glad to get that information for you. I understand they are coming up tomorrow, and can provide that.

I do not have data of that nature.

Mr. Dellenback. The underlying question in my mind is, is there not a possibility that some schools are handling such a large amount that at a percentage rate in large loans they would do very well, in fact, so well we would be overpaying conceivable costs for that school?

Mr. Tombaugh. That is possible. The ones coming to mind right off would be those predominantly graduate institutions where they are processing a large number of $2,500 loans or at least loans greater than $1,000.

Certainly, with the latitude that the Commissioner is given in this bill, as it is now stated, there could be developed a sliding scale that would keep that from happening. I see nothing in here that would prohibit the Commissioner from putting a ceiling on the total amount any one school could receive just as the three college-based programs have with $125,000 as the most they can receive.

Mr. Dellenback. That would be the case with the bill as it is before us.

Mr. Tombaugh. That is right.

Mr. Dellenback. If we made the changes in your testimony, that would be blocked?

Mr. Tombaugh. It would be more difficult.

Mr. Dellenback. We might go the road of making one of the changes you propose, that is, change the "may" to "shall".

Mr. Tombaugh. Yes.

Mr. Dellenback. That would indicate some could be made, and we would indicate that a payment be made, but we would leave open the question of ceiling, and the question of sliding scale.

Mr. Tombaugh. With the rules under which you are now operating, the Office of Education would have to submit that to you and you could see that it was within your intent.

Mr. Dellenback. From your understanding of this kind of thing, would you see that as a serious block, would that not be a more fair and equitable thing?

Mr. Tombaugh. I would not argue that that is a more equitable way to approach it.

Mr. Dellenback. Under this kind of reimbursement—I am looking not to the fact that we are here dealing in a sense with a technical amendment that was apparently left out of the conference report, that is my recollection of what actually—it was in the House version, we intended to have it in and somehow it fell between the cracks.

Mr. Tombaugh. There is reference in the statement of the managers, but the section it refers to does not exist.

Mr. Dellenback. Looking behind that at the basic question for just a moment, does the Government repay or compensate for administrative expenses for other Federal student aid programs, or would this be the only one we would be dealing with?

Mr. Tombaugh. There is a 3 percent of volume on NDSL, CW-SP, and EOG, and the 1 percent seems to us to be fairly consistent, particularly in comparison to NDSL. With the 3 percent, there is a great deal of collection activity carried on at the institution in a very costly situation.

With these loans, there is no collection, per se, although schools do work diligently in many cases helping lenders locate students and encouraging students to pay any delinquent loans they might have under the guaranteed loan program.

For the most part, it is an up-to-time of disbursement thing with the student, not up until the time he has completed repayment of his loans. I think there is less administrative cost with the program than for work study or NDSL.

The grant program does not have the administrative problems that CW-SD and NDSL have, but it still has the same administrative cost reimbursements. NDSL is probably too small at 3 percent and EOG may be too large in terms of the actual costs of the institution to manage the program, but they balance one another out reasonably well, I think.

Mr. DELLENBACK. We are in a situation where we are not breaking ground with the concept of reimbursing the Federal treasury with this kind of thing.

Mr. TOMBAUGH. That is right. Otherwise the lender, who has a lot invested, is getting the entire proceeds of the program, and it ignores the fact the school has a considerable investment up to the point when the lender even sees the application and even beyond that.

If the program is going to work and have a reasonable rate of return in terms of collections and we minimize the default, I think the schools have to be involved. They have to talk to the student at the time he first comes in to inquire about applying and talk to him with respect to the obligations he has if he takes out this loan, and try to work with him to ascertain the appropriate amount he should borrow.

This was the problem before the needs test, that a lot of students borrowed more than they needed to do, even in spite of our counseling.

I think that there needs to be greater institutional involvement at the time the student leaves the institution, that is in terms of going to see his lender right away and work out the payments.

We do this with NDSL continually, and it has never been stressed much with the guaranteed loan program, but I think with the delinquency problems that may come about in the future, this is an important institutional activity to work with the student, even though it is not the institution's money in terms of repaying.

Mr. DELLENBACK. One last question, can you give us an approximation of the time that your office devotes to GSL operations versus other operations. Is it a high percentage or lower, what is it?

Mr. TOMBAUGH. It is somewhat seasonal. From this point until August, we will have a high volume of guaranteed loans and from August until March, it won't be that heavy.

Mr. DELLENBACK. In a sense of the high volume, what might it be in percentage approximately?

Mr. TOMBAUGH. I would say in terms of the applications we process during this period of time, we are talking of 25 to 30 percent of the paper flow in our office relates to this program during those 6 months of the year.

Mr. DELLENBACK. The other 6 months it would be incidental?

Mr. TOMBAUGH. Yes, it is incidental during the other period of time.

Mr. DELLENBACK. We might find on the average one is 30 percent and the other is minus, maybe 15 or 17 percent?

Mr. TOMBAUGH. I would say 15 to 20 percent of our staff time is involved.

Some other factors are involved, for example, last summer when we had the implementation of the additional affidavit and so on, OE could not generate the forms fast enough to supply the institutions, and our institution had something in the order of $500 in printing we had to absorb to make the program work.

I am sure that there are larger schools than mine who had a substantial cost for administering the program. We are glad to do that because it helps kids, but we have to justify our budgets to our presidents and that makes it more difficult to do when we are covering costs of that nature.

Mr. DELLENBACK. Thank you.

Mr. O'HARA. Mr. Benitez.

Mr. BENITEZ. No questions.

Mr. O'HARA. Mr. Burton.

Mr. BURTON. No questions.

Mr. O'HARA. Mr. Tombaugh, why don't you continue on H.R. 314? Mr. Biaggi will be telling us more about H.R. 314. There is a hearing on that tomorrow so why don't you give us your views?

Mr. TOMBAUGH. We must view H.R. 314 with mixed emotions. We agree with Congressman Biaggi that those who work in mental hospitals or schools for handicapped individuals are deserving of similar considerations to those provided teachers in the same institutions.

However, we must continue to express concern about the extension of cancellation provisions to new categories of individuals just as we have in the past urged the Congress to end the cancellation provisions already in the law. In March 1971, we testified before this subcommittee and recommended that teacher cancellation be terminated for all except those employed in districts with high concentrations of low-income families.

Our reasons then remain valid: (1) There is no evidence to indicate that the cancellation provisions cause individuals to alter their vocational patterns. In a national study conducted for the Office of Education, I found that only 3 percent of the NDSL borrowers who taught subsequent to graduation did so in order to receive loan cancellation.

(2) Relating to the first point, the cash benefits normally received through cancellation are so small to any one individual that it is easily understood why few vocational patterns are altered.

The typical borrower leaves school with less than $2,000 in NDSL outstanding. In the sample referred to earlier, only 12 percent had borrowed more than $2,000, and only 2 percent were over $3,000. None had borrowed more than $4,000.

The student borrowing $2,000 under 10 percent cancellation has maximum yearly benefits of $200 or $50 per quarter, hardly the level that would cause one to go into a position that was not preferred for other reasons.

(3) While no one individual borrower receives substantial benefits from the cancellation provisions, the cumulative cost to the program is significant. Since the beginning of the NDSL program in 1958,

over $250 million has been lost from the fund as a result of the vocational cancellation provisions.

That is almost 1 full year's appropriation, and more than some year's appropriations have been. The only costs which show on the Federal budget are those appropriated to reimburse the institutions for their 10 percent which is cancelled, but the true cost is 10 times that amount.

Thus, the ability of the schools to recycle the appropriated funds is substantially impaired.

(4) Our fourth reason for recommending against further extension of cancellation privileges relates to the administration of the fund at the institutional level. Without the cancellation provision, NDSL would be a fairly straightforward program, without too many complications.

The necessity to accommodate cancellation, however, greatly complicates the entire collection progress and makes good collection efforts much more difficult to achieve. The provisions of H.R. 314 add still another cancellation provision, with still another set of conditions. The complications brought about in the collection process do not seem warranted.

For these reasons, we would urge the subcommittee to avoid further proliferation of the NDSL cancellation provisions. They have not been effective in changing vocational patterns, they are of such small benefit to any one individual, but they cost the fund dearly in the aggregate.

On the other hand, if incentives to attract persons into specific vocations are needed, we would certainly support more direct measures of providing for those needs.

I might insert here, if this is a field that needs stimulation in terms of gaining employees or if those employees are underpaid and need to have compensation in addition it would seem to me there are less costly ways of doing it and ways that would make more significance to the individuals involved than going through this cancellation.

Mr. O'Hara. By paying them more?

Mr. Tombaugh. Yes, it gives the people who have borrowed an advantage over those who have not borrowed. I do not see the rationale for doing it that way.

We would now like to turn our attention to three or so items which are not in the form of legislation at this point, but which we would like to see incorporated into the legislative output of this subcommittee.

The first matter to be called to your attention is what we believe to be an accidental omission in the final drafting of the Public Law 92-318. In the transfer of the authorization for the national direct (defense) student loan program from the National Defense Education Act of 1958 to the Higher Education Act of 1965, one important condition of the loan apparently "dropped between the cracks."

Section 205(b) (6) of NDEA title II provided cancellation of all loan liability in the event of the borrower's death or permanent and total disability. While not utilized frequently, this provision provides great comfort to conscientious parents and spouses when tragedy strikes a family. We do not find such provisions in the corresponding section 464 of title IV of the Higher Education Act of 1965, and we would urge the subcommittee to add this language at the earliest opportunity, in such a way as to insure coverage to all loans made after June 30, 1972, when the new provisions became effective.

Two of our recommendations relate to the federally insured student loan program. Section 425 of part B, title IV of the Higher Education Act was amended by section 132B of part D of Public Law 92–318 to provide insurance coverage for accrued interest as well as principal.

This was a needed change to make the program more attractive to lenders and to encourage them to make greater collection efforts on refaulted loans before turning them over to the Government. Unfortunately, section 132F of Public Law 92–318 proceeded to preclude such insurance coverage to loans made before the effective date.

We would urge that the subcommittee consider exempting section 132B from the excluding provisions of section 132F, in order that coverage could be inclusive of all loans currently outstanding.

Such action would have several beneficial results:

1. The administrative task of distinguishing loans with interest insured from those without such coverage would be beneficial to lenders and USOE alike;

2. The extended coverage will provide incentive for the lender to make greater effort to collect delinquent loans, rather than "drop them like a hot potato" as soon as the legal waiting period has passed;

3. Such coverage will make the loans more attractive in the secondary market which has been authorized.

We believe this change would be helpful in making the insured loan program a more viable one, especially to the lending community. The second change in the insured loan program we would like to recommend pertains to the determination of financial need as a precondition of eligibility for the payment of interest subsidy.

Section 132C outlines the mechanism for determining the amount of need for such loan. For the vast majority of the eligible institutions in the program this constitutes no difficulty save the administrative efforts reviewed earlier.

For the several institutions located overseas, however, the determination of financial need is a difficult, if not impossible task. These schools are often not familiar with the concept or philosophy of financial need, they do not understand our monetary or economic system, and they are otherwise ill-equipped to provide the needed analysis.

The USOE has indicated to us that they need language added to section 132C which would permit the Commissioner to determine the procedure for analysis of need for those applicants going to overseas institutions. It is our understanding that USOE would then issue regulations designating responsibility for such determinations, either to a contractor or the USOE regional offices.

This would seem to us to be a good solution to a rather thorny problem faced by USOE and the lenders. Our final recommendation to the subcommittee is concerned with the national direct student loan program.

The most troublesome aspect of Public Law 92–318 yet discovered from an institutional point of view is the effect upon those students who had borrowed under the national defense student loan program prior to July 1, 1972, and also under the national direct student loan program on or after that date.

The confusion brought about for those students having "split" loans, i.e., both defense and direct loans, is something one needs to study to believe. Most of the complications are caused by the change in the minimum repayment from $15 per month to $30 per month, and the revision in the teacher and military cancellation provisions.

The best testimony we can provide is to indicate to you that the Office of Education has been attempting since the law was passed last June to develop and issue guidelines to the schools, advising them how to handle the billing and collection of "split" loans.

At least two memoranda have been drafted to explain the implications involved, but thus far, no instructions have been cleared by legal counsel for issuance. The matter is just so complicated as to defy clear explanation even to those who work with the program daily.

With that in mind, envision attempting to explain to the novice borrower why one portion of his loan is payable in $15 minimum installments and the other portion in $30 amounts, why a portion of his loan is subject to 10 percent teacher cancellation and another portion is not cancellable at all, or only at a 15 percent rate, or why one portion of a veteran's loan is subject to cancellation but another portion is not.

The potential for confusion on the "split" loan can only cause borrower resentment, administrative headaches at the institutional, and perhaps an increase in delinquent loans just out of the frustration of it all.

For the most part, NASFAA supported the changes in the terms of the NDSL program made by Public Law 92-318, and in fact would have preferred that the cancellation provisions been even further reduced, for the reasons identified earlier.

However, we are compelled to urge the Congress to amend those changes and reduce the confusion resulting from the "split" loan. This can best be done, in our opinion, by making these changes in terms effective for first time borrowers, and permitting those students who had borrowed under the National Defense Student Loan program at the same institution, and who are working on the same certificate or degree, to borrow under the direct program on the same terms as their original defense loan.

This form of "grandfathering" would greatly simplify the billing and collection process for both the institution and the student, ultimately improving the collection effort. It would, to be sure, cause some additional depletion of the fund through cancellations that would otherwise not be provided.

We feel, however, that loss to be small in comparison to the administrative nightmare which will otherwise take place. We strongly recommend that the subcommittee introduce language to limit these changes in terms to the first time borrower as defined above, and that such action be taken quickly before the grace period of loans made after last June 30 expires and borrowers are subjected to these "split" loan provisions.

Mr. Chairman, this concludes what proved to be a lengthy testimony on several different but related topics. I shall be glad to answer any questions.

Mr. O'Hara. Thank you very much. We are going to recess the hearing at this time and proceed to the consideration of H.Res. 204 and then, we would like like to call you back up for some testimony afterwards or to answer some questions after we complete our consideration of H. Res. 204.

(H. Res. 204, relating to disapproval of the BEOG family contribution schedule for 1973–74, was considered in open markup session, the proceedings of which are printed with other hearings on that resolution. The subcommittee then resumed its hearing.)

Mr. O'Hara. Mr. Tombaugh, if you could come back, I am sure we have some questions for you.

There was one comment you made in here that sort of puzzled me and I am sure there is something here I am missing. I am sure your answer is going to embarrass me, it will be something obvious.

On page 6 you indicate that one of the beneficial results of extending Federal insurance coverage to accrued interest on the loans would be to provide incentive for the lender to collect the loan.

If he is going to get both the principal and interest, even if he does not collect the loan, why does he have more incentive to collect?

Mr. Tombaugh. Under the provisions of the law as it stands now, on those loans made prior to July 1, he stands to gain only the principal that is coming to him on a defaulted loan.

Mr. O'Hara. If he fails to collect from the students?

Mr. Tombaugh. So consequently, once his 120 days, or 180 days have expired, if he has been unsuccessful in collecting to that time, and he does not think he will be successful, he will unload the loan immediately before losing more interest.

If his interest were guaranteed also, he might be inclined to hang on to it.

Mr. O'Hara. Pursue it for a while longer?

Mr. Tombaugh. He wants to get rid of it and minimize the interest loss. If he can get his principal back right away he has only lost 120 days of interest or whatever the time frame is.

Mr. O'Hara. On the other hand, if the insurance systems operation is such that he gets more money by pressing the collection process, because he gets both principal and interest than he would get by letting it go and claiming the insured principal—maybe there is another counterincentive there.

In other words, as long as we are insuring just the principal, there is a monetary incentive to go ahead and squeeze the turnip to see if there isn't something red that might come out of it.

He still would not be getting the accrued interest.

Mr. Tombaugh. I am no banking expert or anything like that, but I would speculate if he could get his money out he could put it out at 12 percent or 15 percent and get more interest on it.

I would think there is little incentive to keep a 7 percent loan if he can get it out and put it out in another loan that would generate more than the 7 percent he is getting to start with.

Mr. O'Hara. Right.

Mr. Huber, do you have any questions?

Mr. Huber. I have no questions.

Mr. O'Hara. Mr. Kemp?

Mr. Kemp. No questions.

Mr. O'HARA. Mr. Tombaugh, thank you again.

You are becoming one of our most popular witnesses for very enlightening testimony. I thought your testimony on the matter we just disposed of, the family contribution schedule, was very helpful to the committee, and I think your testimony on these matters also will be helpful to the committee.

Mr. TOMBAUGH. I might add our association is pleased to hear the dialogue that went on just before with regard to prompt action. If I may speak to that matter, I would express considerable concern we would have that if an appropriation is not made by May 1, or before May 1, there will be great difficulty in getting the BOG program implemented.

Even by OE's own optimistic admission it would provide great difficulty to get a program on the road by fall if they do not have an appropriation by the first of May. Anything that can be done to expedite an appropriation before the recess I think would be extremely helpful to everyone concerned.

Mr. O'HARA. Thank you for reinforcing that information of ours. I think we will move to the extent it is possible to do so. We will try to get prompt action.

Thank you very much.

This concludes the meeting of the Special Subcommittee on Education of the House Committee on Education and Labor for today.

We will meet again tomorrow at 10 a.m. in this room for further testimony on H.R. 68 and H.R. 314.

The subcommittee will now stand adjourned.

[Whereupon, the subcommittee adjourned at 11:15 a.m., to reconvene at 10 a.m., Wednesday, April 4, 1973.]

HIGHER EDUCATION LOAN PROGRAMS

WEDNESDAY, APRIL 4, 1973

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10:15 a.m., pursuant to notice, in room 2261, Rayburn House Office Building, Hon. James G. O'Hara, chairman of the subcommittee, presiding.

Present: Representatives O'Hara, Biaggi, Dellenback, and Kemp.

Staff present: Jim Harrison, staff director; Elnora Teets, clerk; Robert Andringa, minority staff director; and William H. Cable, counsel, full committee.

Mr. O'Hara. The Special Subcommittee on Education of the House Committee on Education and Labor will please come to order.

Today we will conclude hearings on H.R. 68 and continue to take testimony on H.R. 314. Our first witness will be Mr. Peter Muirhead, Deputy Commissioner of Education for Higher Education. He has been asked to testify primarily on H.R. 68.

Mr. Muirhead, Mr. Biaggi has a number of important matters at the moment. Would you mind if Mr. Biaggi delivered his statement first?

The first statement we will receive today will be from our distinguished colleague from New York, the ranking majority member of this subcommittee. Br. Biaggi is sponsor of H.R. 314, which would expand the loan forgiveness features of the direct student loan program now available to teachers of the handicapped by extending those provisions to certain workers other than full-time teachers in hospitals and institutions for the handicapped. Mr. Biaggi has asked to be here on this legislation and later we will also hear from Mr. Lawrence Gold of the City University of New York.

Mr. Biaggi, the committee would be very pleased to hear from you.

STATEMENT OF HON. MARIO BIAGGI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Biaggi. Thank you, Mr. Chairman.

I would like to thank you for offering me the privilege of testifying today, and for giving these bills consideration.

Mr. Chairman, I am most pleased to have the opportunity to speak in support of H.R. 314 and several identical bills I have introduced this session with over 40 cosponsors. This legislation would provide for cancellation of student loans in return for service in mental hospitals and schools for the handicapped and is modeled on the loan forgiveness provisions traditionally applying only to graduates who enter the teaching profession.

The main purpose of H.R. 314 is to encourage increased manpower development in the fields of mental health treatment and education of the handicapped. There are currently an estimated 350,000 individuals in State and county mental hospitals and another 200,000 persons enrolled in schools for the retarded. Furthermore, a report issued by the U.S. Office of Education itself estimates that there is a shortage of over 300,000 specially trained personnel in schools serving the country's 7 million handicapped children. In the great majority of those institutions mentioned above, there are too few trained personnel to offer the unfortunate patients and students the kind of specialized treatment they require.

Mr. Chairman, the legislation we are considering today is the product of an investigation I conducted last year into the conditions at New York State's mental institutions—in particular, Willowbrook State School for the Mentally Retarded.

As a result of that investigation, a team of Federal officials recently released a report condemning the New York State system as inadequate and damaging to patients. We also won a landmark decision in the State Supreme Court which established the rights of the mentally retarded to proper care, treatment and rehabilitation.

A statement of patients' rights may go a long way toward focusing public awareness on the horrible conditions which exist in so many of our institutions for the mentally ill and the handicapped. However, what is really needed is a full-fledged attack on the scandalous shortage of professionals in these fields. Jobs in these institutions for trained psychiatrists, psychologists, sociologists and social workers are going unfilled.

My proposal would amend the Higher Education Act to provide a yearly 10 percent cancellation of student loan obligations in the case of those graduates who enter the field of mental health rehabilitation and education of the handicapped. This economic-incentive approach has been used for years to encourage students to enter the teaching profession. The program has been so successful that the once-critical manpower shortage in the education area has all but disappeared in most sections of the Nation. It is now time we concentrated our concern on the pitifully neglected victims of mental disability and retardation.

Passage of the legislation before us today appears to be particularly necessary at a time when the administration has proposed drastic budget cuts for programs in the areas of mental health treatment, personnel training, research and construction of mental health centers.

Now that the financial drain caused by the Vietnam War has finally come to an end, the American people are calling for an emphasis on the kinds of health and education programs which have been shortchanged over the past several years. Instead, programs for the mentally disturbed and retarded have been chosen by the administration as a prime target of attack.

For example, the budget message boasts that the total phasing out of Federal funding for local mental health programs will bring savings of $18 million in 1973, $63 million in 1974 and $75 million in 1975. Yet no one has bothered to estimate the cost of these funding cuts in terms of lost human potential, or to put a price tag on the suffering this policy will cause the families of those afflicted with mental disabilities.

Mr. Chairman, I would exhort this Committee not to join the administration in its apparent abandonment of the mentally disabled. I would call for favorable action on H.R. 314 as a significant step toward rectifying the critical shortage of professionals in our institutions for the mentally ill and schools for the physically and mentally handicapped.

Mr. O'Hara. Mr. Biaggi, thank you very much. As chairman of this subcommittee I want to congratulate you for the thought that has gone into this proposal. Even out in Michigan which is a good long way from New York and also from Willowbrook, you have highlighted the concern of many of our citizens about the adequacy and the operation of our institutions for the mentally ill and mentally retarded.

In your investigation in New York and the actions following that investigation I think have been extremely important, and have given new hope to the families of the mentally retarded.

I want you to know the committee is aware of your contribution and very much appreciate it.

Mr. Biaggi. Thank you, Mr. Chairman. What is not stated in the testimony I have just given is an additional, almost intangible fact, but one that is as real as the people.

I have been to these institutions, where there are any number of personnel. I can assure you that it is the quality of personnel that is so vital. By taking advantage of the new graduates just out of schools, what you would be doing is really getting them at the very flush of their idealism. They will bring a quality of understanding, a sensitivity that is vital in order to elicit response from the retarded, in order to give a little bit more than the average employee would give, a little affection, born of the idealism of young people.

The Government has often paid for students to go to school, with no assurance they would get involved in the target professions once they graduated—very much like some of our young men who have entered the military academies. They take advantage of the education there and then do not pursue it as a career.

What makes my proposal, in my judgment, superior and more practical is that there is an inducement to go on into the field of their choosing and make a meaningful contribution.

Mr. O'Hara. The proposal is certainly worthy of consideration of this subcommittee and it will receive our most serious consideration.

Mr. Kemp, do you have any questions?

Mr. Kemp. No, sir.

Mr. O'Hara. Thank you for appearing before us as a witness. Now you come back into the ranks and join us as a committee member.

Our next witness is Mr. Peter Muirhead, Acting Deputy Commissioner for Higher Education. Mr. Muirhead has been asked primarily to testify on H.R. 68, Mr. Perkins' bill, to provide a 1 percent administrative allowance for institutions of higher education to cover their costs and making need analyses for student borrowers under the student loan program.

Mr. Muirhead has served in a number of capacities with great responsibility for higher educational programs including a brief stint as Acting Deputy Assistant Secretary of HEW for Education.

Peter Muirhead is currently the Acting Deputy Commissioner of Education and I know that his expertise will speak for itself.

Mr. Muirhead, if you would please give the committee the benefit of your thoughts on the legislation before us, it would be appreciated.

STATEMENT OF PETER P. MUIRHEAD, ACTING DEPUTY COMMISSIONER FOR HIGHER EDUCATION, U.S. OFFICE OF EDUCATION, ACCOMPANIED BY WILLIAM M. SIMMONS, DIRECTOR, DIVISION OF INSURED LOANS

Mr. MUIRHEAD. Thank you, Mr. Chairman.

I would like to introduce my associate who is with me, Dr. William Simmons who is the Director of the Division of Insured Loans in the Office of Education.

If it please the committee, I have a short statement which I would like to read and perhaps then we could have a back and forth on some of the questions you have in mind.

Mr. O'HARA. Please proceed.

Mr. MUIRHEAD. Mr. Chairman and members of the subcommittee, I am happy to appear before you today to discuss two bills, H.R. 68, a bill to provide a 1-percent cost allowance to institutions involved in the making of needs analyses under the insured loan program, and H.R. 314, a bill to amend the national direct student loan program to provide for loan cancellation for service as a worker in a mental hospital or school for handicapped children, a bill which Mr. Biaggi so eloquently supported in his statement just a few moments ago.

As you know, Public Law 92-318, the Education Amendments of 1972, made a number of changes in the provisions of the guaranteed student loan program.

Section 132C changed the basis for the payment of Federal subsidies on interest on such loans. Prior to July 1, 1972, students from families with adjusted family incomes of less than $15,000 were automatically eligible for Federal subsidies on interest during their in-school period; students from families with higher incomes were ineligible.

Recognizing that students from families with incomes above $15,000 might have sufficient need to warrant payment of a Federal interest subsidy, while simultaneously acknowledging that not all students from lower income families had such need, the Congress adopted a needs test for determining whether students who receive guaranteed loans should also receive interest subsidies.

This provision, and a number of other changes in the guaranteed loan program, were suspended by Public Law 92-391 until March 1, 1973.

Now that needs analyses are again being required, pressures are arising for the Federal Government to pay institutions for performing this service on behalf of their students.

We see no reason for the Federal Government to make such a payment. Many of the guaranteed loan applicants have other sources of financial aid from their institutions; for these students the institutions have already performed such needs analyses.

All that remains for the financial aid office to do is enter the estimate of need from his already completed analysis on the form for the student's guaranteed loan application. Certainly this act does not require a Federal compensation in the amount of 1 percent of the loan amount.

For those students who receive no other institutional aid, needs analyses can routinely be performed by existing needs anlysis services such as the college scholarship service or the American college testing program. These services charge the student approximately $3 for performing the analysis. Again, entering the dtermination on the guaranteed loan form should be a reasonable routine activity for a college financial aid officer.

It makes little sense to pay a college an allowance based on the amount of loans approved. A financial aid officer must spend as much time performing a determination for $500 worth of financial need as for one of $1,500. The information required is the same; the outcome provides no reasonable basis for a payment.

In addition, a school has little control over whether a student ever actually receives a loan. All the financial aid officer does is perform a needs assessment and make a recommendation concerning the amount a student should receive. The student is then responsible for finding a commercial lender which will make the loan. In many instances students fail to follow through in seeking a loan, or have their applications turned down. In these instances, under H.R. 68, a school would receive no compensation, even though the financial aid officer had performed the determination.

H.R. 68 would also not distinguish between schools which merely perform needs analyses for students seeking commercial loans and schools which are themselves lenders. We would strongly object, as I expect that you would, to the payment of any cost allowance to a school which acts as a lender. Schools as lenders already have a tremendous economic advantage over schools acting as a third party, as their outstanding loans are subject to the normal 7-percent interest and up to a 3-percent special allowance payment. Their loans are also fully insured for principal and, for all loans made on or after March 1, 1973, for interest. The expense of handling loans as a school is, in our view, more than covered by these provisions.

It would seem most reasonable that institutions themselves bear the cost of performing the need determinations necessary if their students are to receive guaranteed student loans. Students, as the source of institutional revenues through tuition, are vital to an institution.

Sensible allocation of institutional resources would seem to dictate that student financial aid offices receive adequate support from institutional funds. The Federal Government should not subsidize institutional costs which could be met from other quarters.

While we are on the subject of the guaranteed student loan program, we would recommend a legislative change relating to the approximately 600 foreign schools which are eligible for the program. During Fiscal Year 1972, about 0.3 percent of the total loans were made to students at these schools. In actual numbers, it amounted to about 5,700 students The guaranteed loan program represents the only O.E. financial assistance program available to students enrolled in institutions abroad.

H.R. 68 would include these foreign schools in its administrative allowance provisions. We feel that they should be excluded. A relatively small number of students is involved. Determining fees in various currencies is complex, and the effect of such schools' inclusion would be an unnecessary outflow of dollars to foreign countries.

However, we have special problems with these schools as a result of the inclusion of the concept of financial needs analysis in the guaranteed loan program, as needs analysis is unique to this country. Language and cultural differences, as well as lack of understanding of the U.S. standard of living and the various determinants that enter into needs analyses, make it impractical for the foreign schools to comply with the new legislation.

We recommend a technical amendment to the law which would provide that needs analyses for students attending foreign institutions be conducted by the State guaranteed agencies, where the loan is insured by such agencies. In the case of the federally insured program, needs analysis could be conducted by the HEW regional office.

H.R. 314 proposes to liberalize cancellation provisions under the national direct student loan program. I thought you heard some very persuasive testimony on that the other day from Mr. Tombaugh speaking as a financial aid officer.

This administration, as have administrations before it, opposes extension of these cancellation benfits to additional classes of people.

Experience with teacher cancellation provisions, in effect since the program was enacted in 1958, has showed that cancellation is not demonstrably an encouragement to enter a particular profession.

The Congress recognized this in the Education Amendments of 1972 when it severely limited NDSL cancellation, dropping provisions for cancellation of loans for general teaching service.

Extension of cancellation to workers in mental hospitals and schools for the handicapped, as proposed by H.R. 314, would add a new category of eligibles to NDSL.

It sets a bad precedent to extend it to nonteachers offers one even worse. Although employment in mental hospitals and schools for the handicapped represents socially worthwhile service, the national direct student loan program is not a proper or an effective vehicle for encouraging such service.

For the reasons I have stated we oppose enactment of H.R. 68 and H.R. 314.

We would be happy to answer any questions that you might have.

Mr. O'HARA. Mr. Muirhead, thank you for your testimony.

If I could try to sum up your comments on H.R. 68, they would be that you believe that the costs to the institution of making this needs analysis is minimal and that it is a service that the institution ought to be willing to perform for its students with recompense either by the student or by the government ; is that correct?

Mr. MUIRHEAD. That would be a fair analysis of it. I would like to add a little corollary to it by saying that this concept of paying for needs analysis has traditionally been paid in many instances by the students themselves by subscribing through the college scholarship service or the American college testing program.

Consequently, when the student comes to the student financial aid officer, the needs analysis has been performed and he has paid for the service.

I would say, Mr. Chairman, in those instances where a student has not purchased those services, it would be quite a legitimate thing for the college to say:

> Well, this is a service that ordinarily the student is asked to pay for and we will charge you for it the same as other students have been charged for this service.

Mr. O'HARA. In other words, you cannot see any reason for a governmental subsidy?

Mr. MUIRHEAD. I cannot see a reason that would be justifiable in terms of what all of our priorities are in use of Federal resources.

We want most of all to provide assistance to students. In this instance it would seem as though it would be a legitimate thing for the institution to use its own resources as they have traditionally in cases of this kind or if they so opted to ask the student to pay for the service but at no higher rate than the student normally purchases that service for from other areas.

Mr. O'HARA. In effect, $3?

Mr. MUIRHEAD. Yes, that seems to be an established charge. I would say in passing the service which is provided is probably a good deal more complex than we would be asking the student financial aid officer to provide.

Mr. O'HARA. After all, the school has an interest in keeping the student in school and giving him the financial means by which he can pay his tuition fees and what-have-you to the schools.

After all, that is what the money is being used for, so I think there would be some self-interest there which would suggest perhaps they might want to do this as a service.

With respect to your testimony on these other matters, Mr. Tombaugh spoke of some of the complicated administrative problems connected with the interest subsidy on some loans—I mean the interest guarantee of some direct loans and a principal guarantee of other direct loans and the difference in the annual repayment requirements.

I think those are also matters that the subcommittee is going to try to work out something for.

Mr. MUIRHEAD. On the first two that you mentioned, that of the recent change in the guaranteed loan program which provides a guarantee for both principal and interest to the lender as of a certain date stated in the statute, I think some comment has been made before the committee that that particular guarantee might be extended to all loans that are in the pipeline.

We do not think that would be an advisable thing to do. It would seem that we should wait to see how effective what the Congress has enacted turns out to be. All of us are interested and all of us are pressing toward improving the collection procedure under the guaranteed loan program and reducing defaults.

It is hoped that this important amendment made by the Congress may indeed help us with the collection and default problem but it would seem to me we ought to wait and evaluate it before we extend it to all the loans that are in the pipeline.

Mr. O'Hara. Another point that was raised, the business about the rate of repayment having changed as a result of the new laws—would you care to comment on that?

Mr. Muirhead. That is right. The amendments for the direct loans now provide there will be after a certain date specified in the law a repayment at the rate of $30 a month, whereas prior to that it had been $15 a month.

The proposal has been made, I think, before the committee that it might be advisable to extend a way you could go back to the low level of monthly payments and all the provisions that would go with that.

We would be inclined to think the Congress in enacting this made a step forward but that it would not be a step forward if we were to turn and bring all of the provisions that were in effect before and make them now available, such as continuing the cancellation provisions that were available before but which are not now available.

The point has been made that it is complicated. We cannot deny that but I think the proposal that has been made to you would further complicate it.

Mr. O'Hara. I think it is really inordinately complicated the way it is now. Someone might have started their loan before the effective date of the amendments.

Then that part of the loan is repayable at a minimum rate of $15 and then part of that is forgivable and then as of a certain date the remainder of the loan for the rest of the time the student is in school is repayable at the minimum rate of $30 and that part is not partially forgivable so the committee is concerned about that.

Mr. Muirhead. As are we, Mr. Chairman.

What I think I would counsel the committee is that the proposal which has been suggested which would say that it would apply to first-time borrowers would further complicate what is already a complicated situation.

Mr. O'Hara. We are going to look very carefully at it.

Mr. Dellenback, do you have any questions?

Mr. Dellenback. Yes.

Thank you, Mr. Chairman.

Mr. Muirhead, we welcome you again.

May I follow up on these last two comments you have made to see if you could add anything further.

First, on this testimony that was given to us yesterday by Mr. Tombaugh dealing with this split loan and the $15 repayment and the $30-repayment minimum, et cetera, the suggestion was made by Mr. Tombaugh that the confusion could be reduced by making the charges in terms apply to first-time borrowers only and permitting the students who borrowed under the old law at the same institution and who were working on the same degree to borrow under the direct program as their original loan had been.

It would seem to me that would reduce the confusion for the individual borrower. If the confusion is not administrative in the office but is instead for the borrower, and if you had been borrowing before and continued to borrow with these controls at the same institution, at the same degree, it would certainly make it simpler for you if we carried forward the old provisions whatever they were.

Whereas, if somebody else had been borrowing before and moved in now and had the new provisions applied to him, it would certainly not be complicated for him.

You have replied to the Chairman's question by saying you think it would make it more complex by applying it to first-time borrowers.

I do not see why.

Mr. Muirhead. Our analysis of it leads us to believe if we were to follow this suggestion and say that the provisions of change in Public Law 92-318 would apply to persons borrowing only for the first time after date of enactment of the law, which was June 1972——

Mr. Dellenback. The first-time borrower will not have a problem.

He had to borrow before, so for the first-time borrower it is no better or no worse.

Mr. Muirhead. It would seem to us that this would ultimately mean that persons borrowing at the same time, be they first-time borrowers or renewal borrowers, would be subject to different provisions.

If a person were a first-time borrower he would follow the provisions suggested in this suggestion.

If he were a borrower who was renewing a loan but borrowing at the same time, then he would be given that loan under different circumstances.

Mr. Dellenback. Is that argument one of equity or one of confusion?

Mr. Muirhead. It seems to me what is suggested for the argument here is to reduce confusion.

Our analysis of it leads us to think we would possibly be compounding the confusion. I have not addressed myself nor do I think the suggested amendment addresses itself to the problem.

It addresses itself to the difficulty institutions may have.

Mr. Dellenback. Surely it would not be more confusing for the student because the student would have a very simple situation.

He would do it exactly the same for all his loans, so, therefore, you are not implying that it would be more confusing for the student if you went that way.

You have struck out the concept of equity as the basis and you are saying it is still more confusing but confusing for whom, for the institution?

Mr. Muirhead. Confusing for the institution.

I guess I would have to rest my case on that, Mr. Dellenback.

It would be more confusing for the institution.

I think we would have to analyze whether or not it would be more confusing for the student. I quite properly point out if the student is a first-time borrower, then there is no complexity as far as he is concerned.

The provisions are clearly spelled out for him. Our contention is that students who are borrowing at the same time, be they first-time borrowers or repeat borrowers, would be dealt with in an uneven manner.

Mr. DELLENBACK. Now you are getting to equity but you were avoiding the equity argument before.

You are partly saying it is an inequitable program.

Mr. MUIRHEAD. I mean it is administratively untidy.

Mr. DELLENBACK. Mr. Tombaugh's suggestion did not grandfather in everything. He is talking only about borrowing under the direct program which is a direct followup of the defense.

So we are staying with that one program and we are talking about only certain minimal changes. We are talking about the repayment provisions, not everything else, but you still think that it would be administratively more complex——

Mr. MUIRHEAD. Yes, and this would be for the institution.

What we would like to do is perhaps submit for your consideration as you consider this a couple of perhaps case studies showing what the situation would be if the technical amendment were not passed administratively and what it would be if it were passed.

Mr. DELLENBACK. I am sure we would welcome that and, with unanimous consent, I would ask that that information be supplied for the record.

Mr. O'HARA. Without objection, the request is agreed to.

[Information to be supplied follows:]

NATIONAL DEFENSE/DIRECT STUDENT LOAN REPAYMENT EXAMPLES

First, it should be noted that the inclusion of the $30 minimum repayment provision in the note form covering loans made after June 30, 1972, should not be used to force a borrower to repay his National Defense Student Loan any faster than required under provisions contained in his original note. An additional important point is that the $30 minimum and the $15 minimum are *not* additive. That is they may not be summed so as to require a borrower to make repayment at a minimum of $45 per month, $90 in the case of a bimonthly repayment or $135 in the case of a quarterly repayment schedule.

The new provisions of the Act can result in examples of repayment schedules which are relatively complex to account for, in a bookkeeping sense. If for example, a borrower's loan(s) through June 30, 1972, totalled $1,500 and his loan(s) *after* June 30, 1972, totalled $750, and if both loans were secured by notes which contained both the applicable minimum repayment provisions, not more than $15 of the monthly repayment of $30 would be applied to the $1,500 loan, and the remaining $15 would be applied to the $750 loan. The $750 loan would therefore be repaid earlier than the $1,500 loan. At the time the $750 loan is fully repaid, the borrower's monthly repayment would drop from $30 to $15.

If the above situations were reversed, e.g., if the total loan(s) granted through June 30, 1972, were $750 and the total loan(s) granted after June 30, 1972, were $1,500, the $15 would be applied to each loan, except that in this instance the monthly payment of $30 would not be decreased to $15. After the $750 is repaid, instead the entire monthly repayment of $50 would be applied to the $1,500 after the $750 loan has been repaid.

As another example, if all of the borrower's loans through June 30, 1972, were made subject to the 10-year repayment provision and all loans made to him after that date were made subject to the $30 minimum repayment provision, the institution would be able to collect on the new loan the difference between the $30 minimum and the amount the borrowers is paying on the loans made under the 10-year replayment plan, but the $30 payment on the new loan could not be used in such a manner as to result in forcing the borrower to repay his old loan in less than the 10-year repayment period to which his note entitles him.

The matter may be further complicated by the fact that a borrower may have been granted loans from more than one institution where his various loans may be subject to (1) the 10-year repayment plan, (2) $15 minimum repayment and/or the $30 minimum repayment. In such cases it is essential that institutions so involved communicate in order that each prepare an equitable repayment schedule in accordance with provisions of the Act and the regulations. In the case of a borrower who has been granted loans under the $30 minimum repayment provision by more than one institution, the institutions should divide the repayment on each loan in the same proportion as to the principal amount advanced by each institution.

Additionally, as has been pointed out loans made before and after June 30, 1972 are subject to different cancellation provisions. Thus, a borrower with loans made before and after the above date may have one portion of his loan subject to cancellation and the other portion not subject to cancellation. This creates further bookkeeping difficulties for the institution. On the other hand, as to the proposed amendment to extend the $15 minimum monthly repayment rate to former National Defense borrower's who had loans both before and after June 30, 1972, it should be noted that the $15 would be applicable only to those borrowers whose total loans are less than $1,800. If the constant total repayment is $15 the amount of loan which can be repaid in ten years at $15 is about $1,550; at $30 a month, about $3,100. Thus, it is felt that few borrowers would be affected by the grandfathering of the $15 minimum monthly repayment.

Additionally two groups of borrowers 1972-73 and 1973-74 have received loans before and after June 30, 1972. Many of these have already graduated or left school. It would appear, therefore, that the proposed amendment would cause considerable confusion among both borrowers and institutions. Institutions and/or their billing services have geared up their billing and accounting procedures to handle the 1972 changes. The proposed amendment would create a third category of accounts and necessitate further work for many already overworked institutional officials.

Mr. Dellenback. So I may again be clear on the first of those technical recommendations which we heard from Mr. Tombaugh yesterday, the section providing insurance coverage for the accrued principal as well as interest, and the section which precluded that to loans before the effective date, do you also recommend against that?

Mr. Muirhead. We recommend against that on the ground that the change that is now in the law is hopefully going to have a salutary effect upon our collection and default problem.

We would like to wait upon some evaluation of that before extending the idea to all the loans that are now in the pipeline and that will come up to repayment status and possibly default at a later date.

Mr. Dellenback. In the arguments made by Mr. Tombaugh, and I am sure you will have an opportunity to look at his testimony in this regard, he cites three reasons for urging that particular change. First he says the administrative task of distinguishing loans with interest insured without such coverage would be beneficial to lenders and to the U.S. Office of Education.

That goes to the confusion or complexity argument you were making a moment ago in connection with another problem.

Would this not simplify things for both the lender and the Office of Education?

Mr. Muirhead. It would undoubtedly simplify things. However, we have to inject into this argument the additional cost. When we weigh that in the balance we feel we do not have enough evidence as yet to indicate that this additional expenditure of Federal moneys would be a factor in terms of helping us with the default and collection problem.

I can assure you, Mr. Dellenback, if our evaluation of it indicates that it is indeed an effective tool for helping with the collections and defaults that we will be back to you and asking that it be extended.

Mr. DELLENBACK. It pertains, I assume, to that second argument when Mr. Tombaugh said in his opinion the extent of coverage would provide incentive for the lender to make greater efforts to collect delinquent loans rather than dropping them as a hot potato when the legal time period has passed.

Mr. MUIRHEAD. We are saying that if it turns out to be true, then we will want to consider using the same pocedure for all.

Mr. DELLENBACK. To determine whether that is true, you would have to wait for new loans to be made, to come to maturity, to be collected, which means we are talking about a number of years. Then you would balance the two measures off against each other by which time it might be so far down the pike that it would be too late to do anything about the now current loans as opposed to some loans current in the future.

Mr. MUIRHEAD. It would take some time to do it but I would not think it would take a number of years.

Mr. DELLENBACK. Does it not require bringing the loans to maturity and you see what happens in the collection process.

Mr. MUIRHEAD. Yes, we will see whether or not as a result of this that banks turn over a larger percentage or a smaller percentage of loans to the Federal Government for collection.

Mr. DELLENBACK. That is going to wait for the maturity of the loan and that is not going to happen in a matter of a few months. We are talking years.

Mr. MUIRHEAD. Loans are maturing each year.

Mr. DELLENBACK. We don't have anything to measure it against as to the effectiveness of the new procedure as opposed to the old procedure until we get the new procedure into effect and for loans made now on out, you are going to have to wait for years for those loans to become mature.

Mr. MUIRHEAD. I think, Mr. Dellenback, on balance, you are quite right in terms of the bulk of the loans but the guaranteed loan program is a very interesting program as you, of course, know, and it supports widely varying lengths of study so that we will have an opportunity to take a look at this in a relatively short time for borrowers who have completed short courses of study and in many areas thus far we have found that there is a high incidence in those areas of loan collection problems.

Mr. DELLENBACK. May I ask a couple of questions about your direct testimony this morning in addition to those points we have covered.

On H.R. 68, the proposed cost allowance to institutions, is my recollection correct that we already have an administrative cost reimbursement allowance in connection with certain of our student loan programs or certain student aid programs at the present time?

Mr. MUIRHEAD. Yes, we do have an administrative cost allowance for what we refer to as the college-based programs.

Mr. DELLENBACK. Does that involve educational opportunity grants, NDSL——

Mr. MUIRHEAD. They are all covered because the responsibility for administering those programs rests with the college.

I am quick to point out the difference here because the guaranteed Loan Program is predominantly administered through banks.

Mr. DELLENBACK. But the percentage allowance is higher.

Mr. MUIRHEAD. The percentage allowance is 3 percent in those programs.

Mr. DELLENBACK. What if we left the language alone.

It gives double discretion. It says the commissioner may pay and then in talking about the amount it says which may not exceed 1 percent.

Doesn't that give the commissioner adequate discretion as to determining sliding scales and different methods of dealing with different situations so that we could make for fair and adequate reimbursement without setting up an arbitrary procedure which would be a bonanza or windfall for somebody?

Mr. MUIRHEAD. I am quite sure that when this legislation was drafted a good deal of care went into the wording of it, and you are quite right that the language is permissive and would permit the commissioner to arrive at what would seem a reasonable level of reimbursement.

I would quarrel with the percentage approach to providing reimbursement to the institution.

Mr. DELLENBACK. It would be better to go to a flat application?

Mr. MUIRHEAD. Yes. I would quarrel with it on two grounds: One is that the loans have a very wide range. The students borrow as low as $300 and now under the amended legislation they may borrow up to $2,500.

So, the task before the student financial aid officer is relatively the same but if you were to go to the maximum, in one instance they would receive three dollars and in the other instance they would receive $25.

I would think the approach would be to reimburse the institution for the task they are performing and not base it on the size of the loan.

I am sure the Congress would not want to enact legislation that would in any way encourage institutions to give larger loans than are necessary.

Mr. DELLENBACK. Could you not cover that with your discretionary procedures under H.R. 68?

You could determine there would be no more for a $2,500 loan than there would be for a loan of $300.

Mr. MUIRHEAD. The way the language now appears in the legislation we could not move it to the concept of reimbursing for the function rather than reimbursing for the size of the loan.

Mr. DELLENBACK. I am not sure that is the case. It sets an overall limit. It does not say it has to be on a percentage basis. It just says the allowance may not exceed 1 percent. You set an overall limit. You could say the amount an institution receives in any one year would not exceed 1 percent of, and then you cover it with a ceiling.

Mr. MUIRHEAD. If the language as it now stands could be interpreted that way, it is my feeling we should reimburse them for the amount of work they do and not the size of the loan.

The other point is, in the event the language of the provision were administered in such a way that the maximum were paid to institutions, I think the committee should have in mind that this would represent a very sizable Federal payment to a number of institutions that are involved in this program, particularly those institutions that are both schools and lenders.

I have here, for example, a list of 20 institutions showing that the range of amount of loans disbursed by these institutions in 1972 ranged from $3.7 million for Saint Johns University in Jamaica, N.Y., to a total of $41 million for the Advanced Schools of Chicago, Ill.

If the act were interpreted in such a way that the maximum were made, that would mean that such schools would be receiving in some instances as high as $400,000 for this particular type of Federal assistance.

Mr. DELLENBACK. That is why I looked very carefully at the flexibility of H.R. 68. It was suggested to Mr. Tombaugh yesterday that it could be 1 percent and that would seem to be grossly inequitable in some circumstances, but I am not sure that would obtain with properly set out language under the Office of Education.

Mr. MUIRHEAD. I have a list of some institutions where if we were to move in the direction of a flat 1 percent you would get some indication in your deliberations of how much would be going to that institution and I would like to submit those for the record.

Mr. O'HARA. Without objection, they will be included in the record.

[Material to be furnished as follows:]

GUARANTEED STUDENT LOAN PROGRAM—LOANS TO STUDENTS OF 21 SCHOOLS WITH LARGEST VOLUME—FISCAL YEAR 1972

Schools	Amount	Number	1-percent fee
Advance Schools, Chicago, Ill	$41,939,471	43,945	$419,395
DeVry Institute, Chicago, Ill	24,221,221	21,826	242,212
Commercial Trade Institute, Chicago, Ill	14,404,483	21,584	144,045
Pennsylvania State University, University Park, Pa	7,699,427	6,490	76,994
Indiana University, Bloomington, Ind	7,418,901	8,206	74,190
University of Minnesota, St. Paul, Minn	6,042,778	5,318	60,428
Ohio State University, Columbus, Ohio	4,629,240	3,882	46,292
University of Pittsburgh, Pittsburgh, Pa	4,347,336	3,635	43,473
Brigham Young University, Provo, Utah	4,316,770	4,595	43,168
South Illinois University, Carbondale, Ill	4,058,738	3,453	40,587
University of California, Los Angeles, Calif	3,769,653	3,407	37,697
St. John's University, Jamaica, N.Y	3,737,483	3,264	37,375
Syracuse University, Syracuse, N.Y	3,611,840	3,020	36,118
University of California, Berkeley, Calif	3,563,178	3,351	35,632
Suny State University, Buffalo, N.Y	3,467,231	3,164	34,672
Suny College, Brockport, N.Y	3,420,945	3,104	34,209
Cornell University, Ithaca, N.Y	3,346,669	2,996	33,467
Northeastern University, Boston, Mass	3,339,230	2,866	33,392
University of Washington, Seattle, Wash	3,334,580	3,221	33,346
University of Florida, Gainsville, Fla	3,330,461	2,979	33,305
Columbia University, New York, N.Y	3,323,236	2,777	33,232

Mr. DELLENBACK. When the concept of cancellation was first wrapped into the education legislation, it was done with the incentive idea in mind that it would lead into key vocations, people who might not otherwise be led into those vocations, and these were vocations that badly needed additional personnel.

Mr. Tombaugh, in his testimony, indicated that, contrary to what was expected when this was put into law, this is little if any evidence under the present situation to indicate that the cancellation provisions actually cause individuals to alter vocational patterns.

Would you have any comment on that, Mr. Muirhead?

Mr. MUIRHEAD. Yes, I would support Mr. Tombaugh's comments.

We conducted a study or you might call it an evaluation of the NDEA cancellation features. It was conducted by an outside agency and it was more objective than hopefully we could have been.

It was conducted by the college entrance examination board. In their study of the NDEA, they pointed out that the cancellation feature had not been an effective stimulant to having student loan borrowers move into the teaching profession.

They conferred with student loan borrowers and followed up on them and if I recall correctly they found that no more than 3 percent of the student loan borrowers indicated that they had decided to become teachers as a result of the cancellation provision or the cancellation privilege that had been extended to them.

This lead us, as it did this committee in its deliberations, to come to the conclusion that the funds that were being used, the Federal funds that were being used for that purpose, could probably be used more effectively for some other purpose.

Mr. DELLENBACK. Even for other methods of getting people to move into those key professions.

Mr. MUIRHEAD. It could very well be. My argument and the whole thrust of my argument is to say that the NDEA cancellation procedure is not an effective way to meet a very laudable goal.

Mr. DELLENBACK. I noted in your testimony, in referring to Mr. Biaggi's bill, you have alluded in a complimentary fashion to the goal and to the service in these particular areas, but your point goes not to the question of merit of getting people into an area but whether this tool is an effective tool to accomplish that point.

Mr. MUIRHEAD. That is precisely my point.

Mr. O'HARA. Mr. Biaggi?

Mr. BIAGGI. Thank you, Mr. Chairman.

At least we agree that the goal is a laudable one. You made the observation that no more than 3 percent had altered their vocational patterns as a result of the loan program. Have you ever made a survey to determine how many graduates were able to pursue their original vocational desire because the loan program was available?

Mr. MUIRHEAD. We have not made such a survey, but I would think on the face of it we would be able to point to evidence that a substantial number of the recipients of NDEA loans would not have been able to have gone on to college if they had not received a loan, so I think it would be a fair deduction from that that the NDEA program as well as other student financial aid programs have made it possible for young people to move into very socially desirable vocations.

Mr. BIAGGI. I am glad we agree. I think the thrust is more important. In light of the dire teacher shortage which motivated the original loan program to a large extent, and of the subsequent surplus of teachers which you would have to attribute in large measure to the loan program, we have sufficient testimony to the fact that the program has been meritorious, and that it has in fact achieved its objectives.

There was no real need, frankly, to alter vocational objectives, as long as you simply permitted those individuals who had these vocational objectives to pursue them. I think we can conclude from your testimony and from the existing surplus of teachers, that the objective was in fact attained.

In light of that, we look to another objective. According to the figures of your office—the latest figures we have are for 1968–69—there is a shortage of some 322,800 special education teachers.

We then look to the Willowbrooks of the Nation and not just simply New York State, because the condition is virtually nationwide with a few rare exceptions.

It is a condition that has existed for some time—a condition that begs for attention, and I mean substantial attention and constructive attention; not simply providing funds, which the Federal Government does as well as the state government.

It is the implementation. If you have been there—and I have—you would see the problem. I have visited many institutions on several occasions, and am not impressed by the usual administrative visit which provides the Sunday's-best-type situation, but rather with the stark realism of the everyday circumstance that we find in these institutions. In my judgment, it is a national disgrace and I am sure you would not disagree.

It is a condition that can be corrected. At the very least, the patients must be given some more meaningful attention. I have observed the quality of the employees you have.

They are dedicated to some degree. Then you have others who have the day-to-day contact with the residents. To a large extent, they are without motivation. They are putting just in time.

There are some—they are the exceptions according to my observations—who carry on in almost heroic fashion.

I also observed that in the presence of these individuals, there was a new spirit engendered in the minds and faces and hearts of the residents. There was activity instead of just sitting on the floor or in chairs.

There was activity, there was participation.

The reason why I suggest this bill is that you are providing more than a single approach to a community need. You are getting graduates who are in fact in debt, and who—either for the purpose of getting involved in the whole mental hygiene area exclusively or in addition to pay off the debt—would place themselves in that area of activity and bring with them their recent education. But more importantly they would bring an idealism that you generally find in people at that period of their lives.

The pragmatists say that in a few years these young people become jaded and soon resemble the others who preceded them. In any case, the goal is laudable and the need is apparent.

I would ask this question: In light of these facts, what would you offer as an alternative?

Mr. MUIRHEAD. I am not prepared to offer an alternative.

Mr. BIAGGI. I realize this is short notice.

Mr. MUIRHEAD. I think your comments are exemplary and moving.

My principal point that I would like to leave you with is that I don't think this is a good vehicle for us to reach the goal that you have in mind.

As we look back over the record in terms of the effectiveness of the teacher cancellation provision, I would want to quickly report to you that the NDEA loan program can neither accept the blame nor the credit for the surplus of teachers.

The student aid programs, to the everlasting credit of the Congress, have left open to young people freedom of choice as to what program they will pursue in postsecondary education.

We have many factors that brought about the surplus of teachers, not the NDEA program. Moreso, there has been the changing enrollment pattern in elementary and secondary levels.

Another factor has been teacher wages which have increased very dramatically over the past few years. I have long contended in discussing the teacher cancellation with this committee, and I would apply it to a cancellation provision for social workers that that is in my judgment a very ineffective way to encourage people to go into a chosen profession.

It reminds me in some measure of the way the local church in small towns used to salve their conscience with a card to pay the minister.

They did not pay him much but they filled up his refrigerator once in a while. The real thrust is to see that they are fairly compensated in that profession.

I don't think a young person leaving college with adequate preparation and having a loan as the average loan is, which is about $1,200 when the student leaves the college, I don't think he is going to be motivated to make a life professional choice based on whether he gets half of that forgiven.

If he is, I seriously question his motivation for moving into that profession. I come out with there are better ways of doing these things you are supporting and that all of us are supporting.

Mr. BIAGGI. Mr. Muirhead, I keep hearing that. Everyone agrees, and have agreed for the last 25 years. Yet there is no movement.

If we are so agreeable on all of the objectives, I think it is incumbent upon someone to assume the initiative and produce a program that will permit us to attain that objective.

The fact remains that we are still dealing with that void, that vaccum in an area that in my appraisal could be most meaningful because I have seen it visibly demonstrated.

You are saying that this loan program was not effective, but that poses somewhat of a contradiction to your original statement when you said that but for this program, many individuals would not have been permitted to pursue their desired vocation.

The students knew there was a great need. I am sure you will find a change in that pattern now, because they know there is a surplus.

The need for teachers was there. How was it dealt with? Well, in many and varied fashions. Loan forgiveness was one of the programs. We now have a need in the mental health field.

I feel, frankly—and I have visited many colleges and spoken to many people—that you have a quality of idealism among the young people today that I am not sure we have ever witnessed before, at least not in equal numbers.

Young people have always been idealists to some degree.

I think this could be a way of getting them involved with the issue.

You ask if the compensation is sufficient for them to participate. We have a recruitment program in the New York City Police Department where individuals come in as aides at almost substandard wages but they come into the program to learn, to participate, to get involved in the whole picture and ultimately they find themselves worked into the system.

It is highly competitive because there are so many people who want in.

I would say suggest, in the absence of alternatives, and in the light of the need, Mr. Chairman, that this bill be given favorable consideration.

Mr. Dellenback. If time permits this morning, would it be possible, while Mr. Simmons is here, to ask some questions about the tangential aspects of the loans?

I would like to ask some things about GSL total balances and something about this matter of the graduated repayment schedule versus the equal instalment payment schedule.

It has to do but not on loans.

Mr. O'Hara. I would inquire of Mr. Muirhead, perhaps you would prefer to testify on those matters after you have had an opportunity to review them.

Mr. Muirhead. Will there be another opportunity to appear before the committee?

We would be more than pleased to take Mr. Dellenback's questions. We would probably be more responsive if we had a chance to review his questions.

Mr. Dellenback. I have never found you to be ineffective, Mr. Muirhead.

Mr. O'Hara. Why don't we give you an opportunity to review these matters and have another hearing.

Mr. Muirhead. We would be very pleased to do that.

Mr. O'Hara. Thank you for coming up today.

Our final witness today is Mr. Lawrence Gold, assistant director of Federal relations for the City University of New York.

Mr. Gold is going to be testifying on behalf of the City University's distinguished chancellor, Robert Kibbee.

He will be testifying primarily on behalf of H.R. 314.

Mr. Gold, we would be very pleased to hear from you.

STATEMENT OF LAWRENCE N. GOLD, ASSISTANT DIRECTOR FEDERAL RELATIONS, THE CITY UNIVERSITY OF NEW YORK ON BEHALF OF ROBERT J. KIBBEE, CHANCELLOR OF THE CITY UNIVERSITY OF NEW YORK

Mr. Gold. Mr. Chairman, I am Larry Gold, assistant director of Federal relations for the City University of New York. Our chancellor, Robert Kibbee, regrets that he is unable to be here today. Dr. Kibbee is in Albany, reviewing our budget with the State legislature.

The City University of New York appreciates this opportunity to testify on behalf of a good bill.

H.R. 314 would cancel part of the national defense student loans of persons who go on to work in mental institutions and schools for the handicapped. This is similar to the student loan forgiveness provisions that have been applied to teachers.

The university is interested in H.R. 314 because we currently enroll about 10,000 students in the various health care fields at our 20 undergraduate and graduate institutions. We have also been shocked at the deplorably understaffed and underqualified staff conditions that have been unearthed at some of our own State's mental institutions, such as Willowbrook.

It seems to us that Congressman Biaggi's bill takes a constructive approach to this problem, an approach that has already demonstrated its value in grappling with the teacher shortages of the 1950s and 1960s.

It is not within my competence to document the dimensions of the health care manpower shortage. Hearings are being held in the House and Senate which bear directly on this issue, and I hope the committee will call upon witnesses later who can supply just that kind of expertise.

However, I do understand that we are short about 50,000 doctors and 150,000 registered nurses nationally, with projections for nursing shortages running as high as 200,000 by 1980. The pharmacist shortage may be as high as 35,000 by 1980, and the last Presidential Commission to assess social work manpower estimated shortages as high as 100,000 by 1975.

A 1968 study of in-patient and out-patient facilities by the National Clearinghouse for Mental Health Information showed 11.2 percent unfilled positions for psychiatrists; 14.2 percent for social workers, 12.9 percent for professional nurses; 4.3 percent for mental health technicians, assistants, and family aides; and 10.4 percent for other professionals—occupational, recreational, and vocational.

The shortage of manpower in the health care professions is real, and our professors tell me that the shortage of professionals who plan to work at mental institutions and schools for the handicapped is even more pronounced.

Congressman Biaggi's proposal is one of many aimed at the health manpower issue. The problem is that while the shortage continues, and while various methods of dealing with it are being explored, the funds already offered for health care training are being cut.

Especially if the budget cutting continues, H.R. 314 would act as a limited but well-placed inducement to put competent professionals in settings where they are needed so badly.

Does this kind of provision really induce people to choose a particular field or work in a particular setting? It is a legitimate question and to some extent, it is difficult to answer. There are many factors that could explain the tremendous growth of teaching manpower since loan forgiveness for teachers was instituted. However, the simple fact is that there was a shortage then and there is a surplus now—a 75,000 person surplus estimated by the U.S. Office of Education. On this basis, the across-the-board forgiveness provisions for teachers have been properly eliminated,

For whatever reason, I am sure that we would be glad to return here to recommend discontinuing H.R. 314's provisions if our mental hospitals and schools for the handicapped found themselves with a surplus of qualified manpower a few years from now.

Whether or not H.R. 314 induces people to enter health professions, it can induce them to choose particular settings in which to carry out their vocations. Whether mental hospitals and schools for the handicapped are settings that Congress wants to promote are for this committee to decide. If so, I think the bill has value.

In addition to our support of H.R. 314, let me take this opportunity to express a favorable reaction to H.R. 68. This measure would provide a one percent administrative cost allowance based on the volume of guaranteed student loans processed through an institution.

The cost of processing each guaranteed student loan is estimated to be $2.58 by my institution. This includes professional, secretarial and postage costs.

Although we urge the committee to consider the fact that processing a small loan or a rejected loan costs as much as processing a large loan, we are in sympathy with this legislation and we urge its passage.

Thank you very much.

Mr. O'HARA. With respect to some of the questions Mr. Dellenback directed to Mr. Muirhead, I would assume you would be willing, if the Department insisted on doing it that way, that the amount be a flat amount per loan application rather than a loan actually granted?

Mr. GOLD. I think the flat rate is the proper way to go about it, particularly in an institution like ours with so many low-income students who have difficulty obtaining a loan. We would be in favor of that kind of change.

Mr. O'HARA. Do you have any questions of Mr. Gold, Mr. Dellenback?

Mr. DELLENBACK. I would ask Mr. Gold briefly to make any other comments he thinks would be helpful to the committee on the effect of this kind of a cancellation because that is really what the issue boils down to.

I don't think anybody is quarreling with what Mr. Biaggi has pointed out as a need in certain areas. You have testified to that need.

There are other great needs besides this particular field but that does not detract from the need in this particular field.

The existence of the need and the doing of something may become completely unrelated to each other.

There is an old Arabian proverb about not confusing the quality of the drink with thirst.

What indication can you give to us that this type of cancellation provision would really take away any portion of the pressure or to what degree would it be helpful to getting people into these particular fields?

Mr. GOLD. On the one hand, the argument has been made that only 3 percent of the teachers responding say that loan forgiveness was an inducement to them.

Mr. DELLENBACK. That was based on a study?

Mr. GOLD. That is right.

On the other hand, we can point to the surplus of teachers although there are 100 reasons why that may be so.

As I said, Congressman Biaggi's bill is a little different because, even if it does not train people to go into the health manpower fields, it can reasonably induce them to work in a particular setting.

In order to be able to determine whether H.R. 314 would work, I would have to see the effect of current provisions which are aimed at directing teachers to work in particular settings. I don't know what the effect of those provisions are now, but I think they might be a more realistic basis for you to evaluate whether this kind of provision could work.

Mr. **Dellenback.** If your statistic of 100 different impacts coming to bear on teachers, even taking the rhetoric as an exaggeration, if there were improved salaries, improved working conditions, involvement of the teachers of what happens in the school or in curriculum or textbook planning, all this does have an impact.

If we have 15 factors, why are you not proposing that we devote whatever mony would be involved in this forgiveness to those other factors, particularly when the only evidence we have—which is statistical—would indicate this is not a factor in bringing about what we are really trying to achieve here.

Mr. **Gold.** There are many other ways in which Congress can act on health care manpower, and they are being considered right now.

It seems to me that, with budget cutting going on and with the fate of these other programs uncertain, H.R. 314 could be an inducement for persons to enter these institutions.

Whether it would be an inducement to go into the health care field, I can't begin to say, but I think it could be an inducement in choosing the place where you work afterwards at the very least.

Mr. **Dellenback.** We are not quarreling. We are searching for something on which we can rest our case if we were to move into a given field.

There are those who say this would be throwing $100 into the field where maybe only $3 would be beneficial.

With dollars being so very tight, our concern is can we afford to use dollars that way when there are a great many other places where the $100 or $20 or $30 or even $99 should be put.

I thank you very much for your testimony.

Mr. **Gold.** May I just say that we have viewed any proposal to extend cancellations in different categories with reluctance, because it can go on and on and there is danger in that.

I think what swayed us and can sway the committee is that cancellation in this case makes sense and is required. It need not be extended to countless other fields if the committee acts wisely in each individual circumstance.

Mr. **Dellenback.** Thank you, Mr. Gold.

Mr. **Biaggi.** I want to thank you for your testimony and your support.

When you see Dr. Kibbee please tell him I hope he is successful in preserving the free tuition policy for the City University of New York.

Mr. **Gold.** Thank you, and he will be glad to hear that.

Mr. **Biaggi.** The analogy has been made to the teacher program, where only three percent altered their vocational patterns.

We are not talking about that. We are not talking about vast sums of money. And we don't know actually what impact it will make, but certainly we should try. We do know that whatever moneys are spent will be reflected in immediate gains by the presence of additional members of trained personnel in these institutions.

These students are very established in their vocational goals. The career pattern has been established. This is just another way of implementing it and broadening it.

I don't know that the three percent analogy really relates to this situation. I don't think it is analogous, really. Hopefully, the new program will provide an answer to our need.

If there is no response, it will not cost the Government any money and we will still be saddled with the old problem.

We should at least try this approach, since everyone agrees there is a need, a great need. I am not at all convinced that the opposition viewpoint can be sustained or that it has sufficient merit to alter my thinking.

As Mr. Dellenback says, we are searching for answers. We don't know what impact this new forgiveness program will have, and there is only one way to find out—and that is to proceed fully realizing that we are proceeding without any cost.

The only cost is if we have a succeed. If there is no response, there will not be any cost. We will take that chance.

If we are successful, we will answer a crying need.

Mr. O'Hara. I want to thank you, Mr. Gold. I think it was an excellent point that you made that the proposal of Mr. Biaggi is not an analogy to the general teacher forgiveness we had under the law but the teacher forgiveness we have under the new law.

It is not forgiving for people who enter the health professions but for those who enter the health professions and then enter a particular kind of setting.

That is a good point that has been made. We have teachers who teach the handicapped or teachers who teach in title I schools and so forth.

Mr. Gold. I hope you will ask OE about this when you see them again. Thus far, I have been unable to obtain data on whether teachers chose to work in certain settings on the basis of their national defense loans.

Mr. O'Hara. Thank you, again, Mr. Gold.

This will conclude the hearing for today and the subcommittee will stand in adjournment subject to the call of the Chair.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned, subject to call.]

APPENDIX

MANKATO STATE COLLEGE,
Mankato, Minn., May 1, 1973.

HON. JOHN A. BLATNIK,
House of Representatives,
House Office Building,
Washington, D.C.

DEAR SIR: I was very pleased to hear that the Congress had approved appropriations for Student Financial Aid and President Nixon had signed the Appropriations Bill. Please accept my sincere appreciation for your efforts. I hope the President will see fit to release all funds appropriated by the Congress.

Another Student Financial Aid matter which requires relatively prompt attention from the Congress is H. R. 68. This Bill provides a 1% administrative cost allowance to the educational institutions for Federally Insured Student Loans. I was disappointed to read that Peter Muirhead, Acting Deputy Commissioner for Higher Education, indicated at a House hearing regarding this Bill that such an allowance was unnecessary.

At Mankato State we have performed time analysis studies on processing Federally Insured Loans under the guidelines which became effective March 1, 1973. These time studies indicate it requires at least 45 minutes of staff time to process the application. This includes financial needs analysis, and typing and other clerical tasks. Under the old program guidelines, we required approximately 15 minutes to process an application.

The above does not include any time allowance for student interviews. Because of the more complicated program guidelines, my office is experiencing a significant increase in such interviews but we have not been able to approximate an average interview time for each client. I feel there is a definite need for an administrative cost allowance and believe Mr. Muirhead's testimony to the House Committee was an oversimplification based on insufficient data. It assumes that financial needs analysis is routinely performed for each financial aid applicant. Since March 1, 1973, this, of course, has been correct. However, prior to the enactment of the new guidelines, Mankato State College did not routinely perform a needs analysis on our Federally Insured Student Loan applicants.

Each year we have about 2,500 such applicants so I am sure you can understand that the new guidelines do, despite Mr. Muirhead's testimony, place a considerable additional burden on the college Financial Aids Office. I would appreciate your efforts in aiding the passage of such an allowance.

Thank you again for your efforts on behalf of Higher Education, and Student Financial Aid in particular.

Yours truly,

ROBERT J. MATUSKA, *Director.*

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES—CIRC. LTR. NO. 8 (5/11/73)

5. BANKS SHOW WHY GUARANTEED LOANS ARE NOT THE ANSWER

A major lending institution in a metropolitan northeastern area has released cost-accounting figures to officers of a member institution of the Association showing that, on an average outstanding guaranteed-student loan balance of almost $1 million, the institution lost over $20,000 in 1972.

Interest income on the average loan balances during the year of $966,427 was $74,060 in 1972. However, the money to capitalize the loans (5.49 per cent of each dollar on deposit) cost $54,704, and operating expenses (direct cost of handling the loans, plus prorated indirect costs) amounted to $39,462. This left a net operating loss of $20, 106 for the lending institution for the year. To break even on the program, the bank says it would have to charge 9.45 per cent interest on the loans, but received only 7.43 per cent under the administration of the program.

In evaluating the program, bank officials said that a large factor that should be taken into consideration is the great amount of time consumed in discussing the program and how it works with students and parents, in handling the up to 15 separate forms necessary for processing the loans, in answering inquiries when routine procedures are stalled, in computing repayment schedules, and in attempting to contact students who do not respond to a renewal letter.

The institution also pointed to the collection expense following delinquency. Accounts must be 120 days overdue before a claim can be submitted, and all collection work and its documentation done by the institution are then completely rechecked. The waiting period for a claim to be honored is between six and eight weeks, during which period the institution cannot bill the Federal government for interest.

The institution also points out that its money could "technically" be tied up for up to 15 years: four years of undergraduate study, three years extension for military service; three years for graduate study, and five years for repaying the loan. During this time, the lending institution must check monthly lists from the Department of Health, Education, and Welfare, including students who have withdrawn from school, who never entered in the first place, who transfer to other colleges or universities. It states that "constant follow-up (is) required to update records."

The lending institution says that there is increasing pressure on banks remaining in the program because other banks (mostly commercial) are dropping out of this program. Officers of the institution say that, to save the program, it must be made more lucrative to attract new lenders and to retain present lenders. For this, the payment of bonus arrangements should be pegged to something lenders can relate to, such as the primate rate. Presently, the bonus is determined by the secretary of HEW on the basis of a formula not known to the lender.

"The ideal situation," the institution concludes, "would be to have the Federal Government take over the entire student loan program and make loans to qualified students at each Social Security office. The same 7% interest could be charged as well as the ½% guarantee fee. The Government would save the interest on in-school loans and collect interest on the out of school loans. The guarantee would offset legitimate losses and the Social Security office would have access to the Social Security records to determine where the student is working. The Internal Revenue Department could act as collection agency on delinquency."

UNITED STATES SENATE,
Washington, D.C., April 16, 1973.

HON. JAMES G. O'HARA,
Representative, State of Michigan,
Rayburn House Office Building,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: I am enclosing a copy of a letter from Stephen C. O'Connell, President of the University of Florida at Gainesville.

As you see, President O'Connell is deeply concerned about the Federally Insured Loan Program, and he has asked me to bring this to your attention. I hope you will consider this matter carefully, and that you will find the opportunity to share this concern with the members of your Subcommittee.

With kindest regards,
Sincerely yours,

EDWARD J. GURNEY,
U.S. Senator.

Enclosure.

UNIVERSITY OF FLORIDA,
Gainesville, March 30, 1973.

HON. EDWARD J. GURNEY,
New Senate Office Building,
Washington, D.C.

DEAR ED: In February of 1968, the federal government announced through wide media coverage a new student loan program, the Federally Insured Loan. Since 1968 we have processed more than 16,000 applications for students on this program. No federal assistance has been provided to pay for the administration of this program. Our expenses include postage, desk and equipment, office space, staff salaries, transportation to numerous called federal procedural training sessions, telephone, printing, data processing programming and equipment operation time, and miscellaneous supplies expense.

Effective March 1, 1973, we are required by federal law to begin a family financial anlysis to determine each student's needs for educational expense assistance. This procedure is quite complex and represents an extensive commitment of expert staff time. I feel that it is unreasonable to expect educational institutions to continue to bear the administrative costs of this program.

The inequity was finally recognized, and in the Higher Education Amendments of 1972 both the House and Senate agreed to a one percent administrative allowance to cover such costs. Unfortunately, the final draft of the bill which went forward for the President's signature left out this commitment. I called this to the attention of the appropriate authorities and was given assurance that it was a technical error, and would be remedied quickly and without extensive deliberation.

Seven months have now passed, and there is no forseeable prospect of our receiving administrative support in the near future. I am told that HR-68 which covers the language dropped from the previous bill, has been introduced and is in Mr. O'Hara's subcommittee. I am writing to ask that you convey to Mr. O'Hara and to all other congressional bodies interested in this matter our urgent need for relief. We will find it extremely difficult to continue to use resources which have been committed to us for other purposes to support the Federally Insured Loan administartive expenses.

I will be most grateful for your help in moving HR-68 or a similar bill through the Congress at an early date. With my best regards, I am

Sincerely,

STEPHEN C. O'CONNELL, *President.*

THE CITY UNIVERSITY OF NEW YORK,
OFFICE OF FEDERAL RELATIONS,
Washington, D.C., April 6, 1973.

CONGRESSMAN JAMES O'HARA,
Chairman, Special Subcommittee on Education,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: Thank you for the opportunity to appear before your subcommittee last week.

Upon further consideration, allow me to reiterate that H.R. 314 can *not* be measured against the apparent ineffectiveness of the former NDSL provisions in inducing persons to enter the teaching profession. Rather, the bill should be measured against the effectiveness of the current NDSL forgiveness provisions which encourage competent teachers to work in settings where the Congress sees a special national need.

I hope the subcommittee will ask the Office of Education to supply whatever information is available on this point. If none is available, I hope O.E. will be encouraged to conduct such a study. In any event, barring information that the current provisions are ineffective, H.R. 314 should be allowed its chance to accomplish an equally urgent goal in exactly the same fashion.

Again, thank you for the opportunity to present the University's position.

Sincerely,

LAWRENCE N. GOLD,
Assistant Director.

AMERICAN SPEECH AND HEARING ASSOCIATION,
Washington, D.C., April 10, 1973.

HON. JAMES G. O'HARA,
Chairman, Special Education Subcommittee,
House Education and Labor Committee,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. O'HARA: This is to express the support of the American Speech and Hearing Association (ASHA) for H.R. 314, the bill which proposes to amend the student loan provisions of the National Defense Education Act of 1958 to provide for cancellation of student loans for service in mental hospitals and schools for the handicapped. As the scientific and professional society comprising more than 15,000 speech pathologists and audiologists, our particular concern is for those students enrolled in graduate training programs in speech pathology and audiology who could qualify for the measure's financial incentive through service in schools serving the hard-of-hearing, deaf, and speech impaired.

H.R. 314 would provide one means of motivating capable and interested young people to participate in the educational training necessary for a career in the speech and hearing profession. A great demand exists for trained professionals to serve the close to 21 million Americans—about one tenth of our national population—who are in some way and to some degree speech, language and/or hearing handicapped.

The U.S. Office of Education reports that children with speech and hearing disorders comprise the largest single disability group among persons under 21 years of age. Intensification of speech, language, and hearing services in the schools is a must if their needs are to be met. This will require a substantial increase in professionals training at post-graduate levels. Today, for example, only 1.4 million of the 2.5 million school-age children with speech impairments are receiving some degree of needed speech pathology services; 1.1 million receive no services at all. And only about 44,000 of America's 400,000 hard-of-hearing school-age children receive special education services; more than 356,000 receive no services at all.

The pressing need for intensive speech, language, and hearing service-delivery goes unmet because of a shortage of trained professionals in virtually all school districts. The professional-to-pupil ratio in the speech-impairment area is an abysmal one speech pathologist for every 82 speech-impaired children. The situation is considerably worse in the instance of professionals who work with hard-of-hearing children; only about 3,900 audiologists and teachers of the hearing impaired are presently employed in special education settings in the public schools. Close to 28,000 more are needed—seven times the number now providing services.

Mr. Chairman, this Association respectfully requests early favorable consideration of H.R. 314 by both your Subcommittee and the Education and Labor Committee. It is our hope that this letter will be included in the record of your Subcommittee's hearing on H.R. 314 .

Thank you for your concern.

Sincerely,

RICHARD J. DOWLING,
Director of Governmental Affairs.

NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS,
Hartford, Conn., March 30, 1973.

CONGRESSMAN JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
Cannon House Office Building,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: Thank you for your recent letter and invitation to provide testimony to your Special Subcommittee on Education.

In view of your busy schedule, I feel that a personal appearance at this time is not necessary. However, I would like to express the National Council's views on the proposed legislation.

(1) HR 68—We favor this bill. Without this allowance, schools will not be able to adequately perform the responsobilities required of them under the current law.

(2) HR 314—We neither favor or oppose this bill. Since we are not involved with this program, we are not sufficiently qualified to comment on it.

(3) Vietnam POW's—We favor any provisions that would aid and help these deserving people.

There are other areas of concern which we would like to provide testimony on at some time in the future convenient to you and your committee. They are:

(1) New problems created by the "Education Amendment of 1972".

(2) Dischargeability of education loans through legal steps of Bankruptcy.

(3) Sharing of default collection cost with the Federal Government.

(4) Reinsurance to include interest as well as principal, making it comparable to Federally Insured Loan Program.

We hope, sometime after the conclusion of our National meeting (April 18, 19, and 20), you will again invite us to testify on the above and other matters. In the meantime, you can be assured that we stand in readiness to answer further questions.

Respectfully yours,

VINCENT J. MAIOCCO, *President.*

DAYTONA BEACH COMMUNITY COLLEGE,
Daytona Beach, Fla., April 4, 1973.

HON. JAMES G. O'HARA,
Chairman of the Subcommittee on Education,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. O'HARA: This letter is an effort to emphasize the great need for the 1% administrative allowance on the Federal Insured Loan Program. As you are aware, House Bill HR-68 dated January 3, 1973 reintroduces the subsection providing for a 1% administrative allowance for those colleges performing the needs analysis now required for the Federally Insured Student Loans.

At our institution during the past year we were involved in the processing of over 100 insured loans totaling more than $100,000. This total, even though relatively small in comparison to other institutions, was generated in an area where it was very hard for a student to locate lenders who participated in the program. We can also account for more than 50 students that were unable to obtain guaranteed loans in our area last year; however, the state of Florida has now become a lender under the Insured Loam Program making them available to all Florida students. Based upon the fact that the state has become a lender, we anticipate an increase up to approximately 280 applicants for the next academic year.

From the time an applicant first approaches this office until he receives his money, there will be no less than 1½ hours of actual working time spent on each application providing there are no complications. This time will be necessary under the new regulations in order to carry out the intent of the law. When the additional expense of phone, supplies, etc. is added to the cost of labor and prorated against the total cost of the operation of the financial aid office, the 1% administrative expense will not cover the total cost of administering the program, but will go a long way in helping to offset additional expense.

We would like to ask for your continued support for legislation in the area of financial aid to students and expressly ask for your help by supporting House Bill HR-68. We would also like to express our sincere appreciation for all support which you have earnestly given in the past in support of education and financial assistance to students.

Sincerely yours,

WILLIAM E. GENTRY,
Director of Financial Aid.

CALIFORNIA STATE UNIVERSITY, SAN DIEGO,
San Diego, Calif., June 20, 1973.

HON. JAMES O'HARA,
House of Representatives,
Washington, D.C.

DEAR MR. O'HARA: I am writing to submit information in support of H.R. 68, the amendment introduced to provide an administrative allowance for the processing, record keeping and reporting required with applications for Federally Insured Student Loans (FISL).

We understand that officials of the U.S. Office of Education have expressed Administration opposition to any form of administrative allowance. They state, in effect, that the analysis and evaluation required in processing an interest-benefit loan application is not an additional work-load since this process is accomplished when the student applies for aid from other programs. This stated position does not, however, recognize that most FISL applicants are not applicants for other aid.

We have surveyed FISL activity at this University for the academic year 1972-73 and find the following:

a. Of 1,766 FISL applicants, only 229 (13%) received aid under the other programs.

b. Since March 1, when new FISL regulations requiring "Need" evaluation for interest-benefit loans became effective, only 21 of 78 students (27%) elected not to apply for the interest benefits and thus eliminated the necessity for "need" evaluation.

It is pertinent to note here that of eight major participating lenders in this area, half will not lend to students who do not apply for or qualify for the interest benefits. Additionally but not necessarily pertinent to this issue, only three of those eight do not require the student to have had an account with them for a period of six months or more, and only one will make loans to freshmen.

We have made every effort to streamline the FISL application processing, but there are certain necessary records to be kept and other administrative processes that occupy the services of one clerk on a full-time basis. The need assessment feature utilizes the services of a financial aid professional person for about one-fourth of his time. During the approaching summer heavy application period, the volume of work attached to FISL analysis and processing will seriously hamper the normal work involved in processing and evaluating applications for other aid.

Sincerely,

BRAGE GOLDING, *President.*

STUDENT LOAN APPLICATION SUPPLEMENT OE FORM 1260—INSTRUCTIONS FOR EDUCATIONAL AND LENDING INSTITUTIONS

(NOTE.—Student instructions are found on reverse side of application supplement.)

IMPORTANT INFORMATION FOR BOTH SCHOOLS AND LENDERS

Who must complete: All students must complete the affidavit in Part A, whether or not they apply for Federal interest benefits. The borrower must not sign the affidavit except in the presence of a notary or other person legally authorized to administer oaths or affirmations, who must also sign. Only the original copy need be notarized. The phrase "original notarized" should be printed or typed in the notarial area on other copies. If a student is applying for Federal interest benefits, the entire form must be fully completed. Otherwise, only the affidavit is required. (Note: All students must continue to complete either Form OE 1154 or OE 1070 as appropriate).

Determining eligibility for Federal interest benefits. 1. Unless Part B and C are fully completed by the school and lender, a loan is not eligible for Federal interest benefits: Students who do not qualify for a subsidized loan may apply for a non-subsidized loan up to the maximum amount authorized. However, in no case may a loan, subsidized or non-subsidized, exceed the total cost of education less other financial aid received (exclusive of family support).

2. In Section IV of Part B, the educational institution provides the lender with a school recommendation that is based on educational costs, other aid awarded and resources available to the student, and, in the professional judgment of the financial officer, the amount the family can realistically provide towards meeting these costs. In all cases, lenders are expected to give careful consideration to this amount.

a. Adjusted Family Income less than $15,000: Ordinarily, it can be presumed that financial need exists for a student whose adjusted family income is less than $15,000. The role of the financial aid officer is to determine the existence and extent of such need. If the lender does not consider the school recommendation realistic, he is encouraged to communicate with the educational institution to resolve differences. After careful consideration of the school recommendation, the lender will determine the amount of the loan. This amount will be eligible for Federal interest benefits if the lender records in his files the basis for making a loan in an amount in excess of the school recommendation.

b. Adjusted Family Income $15,000 or greater: Normally, a subsidized loan may not exceed the amount recommended by the school in Section IV of Part B. If the lender, in his judgment, believes a larger loan is justified, the lender must communicate with the educational institution. After considering the school's point of view, the lender will determine the amount of the loan. This amount will qualify for Federal interest benefits if the lender records in his files both a record of his contact with the school and the basis for making the larger loan amount.

3. If an educational institution is the lender, it may not make a subsidized loan to a student that exceeds its own recommendation in Section IV of Part B.

4 While a lender has the authority to make a subsidized loan that exceeds the schools recommendation, it is expected that he will do so only where he has knowledge of the family financial situation and where in the judgment of the lender, the school's recommendation is not adequate to meet the student's need. In such cases, and as indicated above, the lender must indicate in his files the basis for his determination.

Part B (To be completed by the educational institution if the student is applying for Federal interest benefits) Three copies of the Student Loan Application Supplement should be prepared by the educational institution. One copy should be retained by the school and the other two given to the student to forward to the lender. This part must be completed in order for the student to qualify for Federal interest benefits. If the student does not wish to apply for these benefits or if financial data is not available for the computation of the Expected Family Contribution, the data in Part B is not required. In such cases, type or print "Not Applying For Federal Interest Benefits" where the name of the educational institution would normally be placed.

Identification data: Complete the name, address, telephone number and 6 digit code number for the educational institution and indicate the period of the loan for the student borrower. The period of the loan may not exceed one academic year (normally 9 months). Dollar amounts indicated in Section I through IV should relate to this period.

Section I—Estimated Cost of Education.—Indicate the total educational costs to be incurred by the student during the period of the loan. For most students, this would include tuition and fees, room and board, books and supplies, personal expenses and transportation costs.

Section II—Financial aid awarded and other resources.—List only financial aid and other resources that are firm commitments and which apply to the period of the loan. Do not include assistance which may have been applied for, but not yet approved. Included should be all grants, scholarships, educational loans, and school-awarded jobs, including assistance under all federally sponsored programs of student financial aid. Do not include resources that are being considered in the determination of support from the family.

Section III—Support from Family—Subpart A.—The same persons whose income was utilized in the determination of the Adjusted Family Income must be considered in the determination of the amount of family support available to help pay educational costs. This information may be obtained from Part A of this form as follows. If the student answers "yes" to the first question, he is considered to be a dependent student and the income and assets of the parents are to be considered. If he answers "no", he is an independent student and the income and assets of the parents are not taken into account. If the student is married and he answers "no" to the second question, the income and assets of the spouse are to be considered. If the answer is "yes", the spouse's income and assets are not to be taken into account. Indicate both the amount of the computed support from the family and the method of needs analysis used in making this determination. This amount should relate to the period of the loan. Methods approved by the Commissioner of Education for other federally supported financial aid programs are acceptable as well as the Alternate Income system, the American College Testing Program system, the College Scholarship Service system, the Income Tax system or any other method if it produces results which are, on the whole, similar to those which would be produced under the methods listed above. A needs analysis method promulgated by the Commissioner for independent students (as defined above) may alternatively be used for such students as may any other method which produces results which are, on the whole, similar to those which would be produced under any method which has been so promulgated.

Section III—Support from Family—Subpart B.—The amount listed in Section IIIA is more meaningful when adjustments for the individual circumstances of the student are considered. The Financial Aid Officer is expected to exercise his professional judgment in each case and indicate in Section IIIB the amount that can be realistically expected to be contributed for educational costs over the period of the loan. He should take into account geographic differences in cost of living, actual summer earnings, family circumstances, and other factors not always equitably treated in a nationwide standardized computation. Indicate in the space provided the follow code(s) for the reasons used in reducing the amount of the computed family support: (1) Reduction in income, (2) death or disability of wage earner, (3) loss of job, (4) unanticipated medical or other extraordinary expenses, (5) non-liquid assets (e.g. home equity), (6) cannot meet expected contribution from income, (7) other. If code "(7) other" is used, briefly indicate in the space provided the basis for this reason. If necessary, provide this information on a separate page, copies of which should be attached both to the lender and guarantor copy of the form.

Section IV—School Recommendation.—Enter the amount in Section IV according to the instructions stated. In other words subtract available resources (Section II and IIIB) from the Costs of Education (Section I). If a negative figure results enter, "0".

Signature of Authorized School Official.—By signing this form, the educational institution is certifying that the student is enrolled and in good standing or has been accepted for enrollment. Good standing is determined by the institution. If the student is not in good standing, the form should not be completed or signed by the school official.

Part C (To be completed by the lending institution if the student is applying for Federal interest benefits) The lender must complete all items in Part C. Lenders making federally insured loans should receive two copies of this form from the borrower. The lender must retain the original copy. The other should be attached to the yellow copy of the OE 1154 and mailed to the regional office of the Office of Education for the insurance commitment. Lenders making loans under State or private guarantee agency programs should follow procedures established by the agency.

In all cases, the lender should indicate the amount the school recommends, the amount the lender approves and (according to the standards set forth above) whether or not the loan qualifies for Federal interest benefits.

If the amount of the loan is equal to or less than the amount recommended by the school in Section IV of Part B, the entire amount qualifies for Federal interest benefits. If the amount of the loan exceeds the school recommendation, the entire amount will qualify for Federal interest benefits provided the lender indicates in his records the basis for exceeding the school's recommendation (and, if the student's adjusted family income is $15,000 or greater, the lender's records also indicate that he has contacted the school). However, if the loan amount exceeds the school's recommendation, and the lender has no basis for exceeding this recommendation, only the amount recommended by the school would qualify for the interest benefits. In such cases, indicate on the form the amount that qualifies and the amount that does not qualify for the Federal interest benefits.

An authorized official of the lender must sign the form, indicating his title and telephone number and the date in space provided. If there is no school recommendation, Parts B and C need not be completed as the student cannot qualify for Federal interest benefits.

UNIVERSITY OF MISSOURI,
Columbia, Kansas City, Rolla, St. Louis, June 8, 1973.

HON. CARL D. PERKINS,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. PERKINS: A number of weeks ago I was encouraged when you introduced H.R. 68 which included provision for an administrative allowance to educational institutions in return for their work in handling the Federally Insured Loan Program. On April 14 I was especially discouraged when spokesmen for the Office of Education strongly opposed this provision in their testimony before Mr. O'Hara's Special Subcommittee on Education.

Consideration of your bill seems to have been dormant for a while and a number of us in student financial aid are supporting a renewed effort to encourage positive action on your proposal. I'm enclosing a letter of May 29 from Mrs. Eunice Edwards, president of our National Association of Student Financial Aid Administrators, to Chairman O'Hara. Our association gives strong support for the administrative allowance and Mrs. Edwards presents some real facts to justify this support.

The OE testimony infers that most insured loan applicants have other aid anyway and, therefore, require little extra work on the part of the financial aid office. Unfortunately, OE simply has no factual data to back up its claim. Our initial survey indicates exactly the reverse—approximately two-thirds of the insured loan applicants have received no other form of federal aid at the time they get an insured loan.

OE also infers that approving the initial application is the end of our responsibility. Again the reverse is true. The 1972 amendments make the institutions and the lenders partners in counseling the borrower, making the loan, keeping track of the borrower through each enrollment period, holding an exit interview prior to his graduation and may be even helping to locate his address through our alumni files after graduation. This process may be as short as one year or as long as four to eight years, depending upon when the student gets the loan and whether he goes into graduate or professional school.

Prior to '72 the insured loan program gave the institution no lengthy responsibility. In fact, the law discouraged the financial aid office from passing judgment on the loan. This lack of close monitoring by the institution and close communication with the lender in some cases could well be one factor which has helped result in higher delinquency rates.

Things are different now. The Administration fully expects the Federally Insured Loan Program to continue to carry in excess of $1 billion in new student credit annually which will aid more than 1 million students who need assistance. The delinquency rate must be kept to a low level. This means close supervision from the beginning of the loan to the final pay-off. If properly done by both the institution and the lender, the program will be successful. If poorly done, it will be a national costly embarassment. The educational institution is expected to provide the counseling personnel, the office space, the postage and the telephone bills to do its share. The pressure on institutional budgets across the country is well documented—we simply can't take on additional administrative loads without knowing where the money is coming from to pay the costs.

True, each loan may help us to get another student. But in higher education every student adds additional expense—no student pays all of his educational cost. Each one is a further financial responsibility either on the endowment of a private school or the taxpayers of a public school. Hence, the insured loan program is a service to society, but certainly not a money-making proposition for higher education.

Apprehension has been expressed about the wisdom of an allowance to the proprietary-for-profit school because in this instance each additional student is presumed to be an asset which will increase the school's income. My answer here is that any school, proprietary or public, has a responsibility to provide a service under this program. If the job is well done, the savings to the federal government by reducing the delinquency rate will more than pay for the administrative cost allowance. If any school, proprietary of public, does a poor job and its students show an unacceptable delinquency rate then the school should be removed from participation in the program.

Already the federal program has provided that approved proprietary schools are eligible to participate in BEOG, SEOG, NDSL, CW-SP and FISL. Hence, I find it difficult to justify eliminating them from the current proposal.

Apprehension has been expressed about the appropriateness of the 1% allowance now that the loan limit has increased to $2500. Nation-wide during the first eight months of the current school year insured loans were averaging just over $1100 each. (This was prior to the March 1 effective date of the $2500 limit.) This would have netted $11.00 per loan under a 1% allowance. Hence, if there is fear of escalating loan averages, a flat fee of $11.00 or perhaps $12.50 per loan could be established instead of the 1%. The community colleges would like this better anyway since many of their loans are under $1000 and it takes as much time to process a $500 loan as it does one for $1250. The larger schools could accept the fee basis because their loans would average out to a reasonable figure.

The question has also been raised as to whether a 1% allowance would encourage an institution to recommend larger loans in order to get a larger allowance. Since loan amounts must be based upon financial need this really doesn't appear to be a valid fear. On the other hand, the fee basis would completely relieve the anxiety over this possibility.

Another item that to my knowledge has not been proposed in print is the correction of an omission in the '72 amendments. The 1958 NDEA provided cancellation of loan debt and interest in case of death or permanent disability of the borrower. I feel that this benefit was intended by Congress to be carried in the National Direct Student Loan Program but was omitted due to an oversight. It would certainly clarify the rules if this provision could be officially reinstated by legislative amendment.

If any of us can be of further assistance in supplying information please call on us. We appreciate the hard work and the sincere attention given by you, your committee and your staff.

Sincerely,

ALLAN W. PURDY, *Director.*

Enclosure.

MILLSAPS COLLEGE,
Jackson, Miss., June 14, 1973.

HON. JAMES G. O'HARA,
Chairman, Subcommittee on Education,
House of Representatives,
Washington, D. C.

DEAR MR. O'HARA: It is my understanding that the Bill H. R. 68 concerning one per cent administrative costs for the colleges completing the Application and Supplemental Form for the Federally Insured Loan is being considered by the House Sub-Committee on Education. Also, it is my understanding that representatives of the Office of Education have spoken against it. I am very sorry to hear of this action since it is a complete reverse from their approach in the past regarding the one per cent administrative costs. Therefore, because of your committee's consideration and partly because of their negative attitude, I would like to request that your committee consider a few positive facts about this matter and give consideration to the passage of this bill.

At my college (Millsaps College, Jackson, Mississippi, enrollment—1090) we will process about 100 to 150 applications for a Federally Insured Loan each year and this will amount to almost $175,000 in loans. Some of these applicants have requested other type aid and therefore have already completed a Need Analysis Form. Most of those seeking this loan have not completed a Need Analysis Form and therefore must now do this. Since we are required to also complete the Supplemental Form (Part B) and discuss this with the lender, both time and expense are required in our office to handle this situation. This does create new expenses and time consuming situations for our staff. Since the purpose of financial aid is to help the student, and I agree this is the most important aspect of aid, the institution should help support this program. We do and then we do more. The one per cent administrative fee will not cover the additional expense of the new requirements. The institution will continue to process the loan forms regardless of the action taken on H. R. 68, however, we do feel the one per cent administrative fee is just and needed.

I have cited our situation and we are a small college. In the city of Jackson there are two other small colleges, many proprietory schools and one state university. These schools are facing the same problem that we are, that with the increased size in the Federally Insured Loan program more effort will have to be expended just handling these loan programs alone, therefore, we feel that the one per cent administrative fee is just and needed.

I hope the Sub-Committee will look with favor on this bill. Thank you.

Cordially yours,

JACK L. WOODWARD,
Director of Financial Aid.

BALL STATE UNIVERSITY,
Muncie, Ind., June 12, 1973.

MR. JAMES O'HARA,
Chairman, Subcommittee on Education,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. O'HARA: As a justification for an administrative expense allowance for the Guaranteed Loan Program, the following information outlines our experience at Ball State University since new regulations were instituted as a result of the Education Amendments of 1972. Of the total loan applications received, processed and completed to date, only one-third of those applying for a Guaranteed Loan also applied for financial aid through the University. Therefore, initial needs analysis had to be performed on two-thirds of the applications. This would seem to refute OE's statement that "everyone already had an ACT or CSS calculation done."

Also, approximately two-thirds of the total applications processed were adjusted for one of the allowable reasons stated in the regulations. This required a review of the financial statement, and new determination of the family contribution.

Based upon our best judgment, the number of telephone calls from lenders, students, and parents has tripled since March 1, 1973. Also, the student and parent traffic within the office is more than four times as great as in the past. This is partially the result of an uninformed public of lenders and students. Students who received a maximum loan under the program last year can get little or no loan this year based upon our recommended amount as determined by financial need. Finally, the amount of paper handled and steps in processing have tripled.

For the above reasons, we think an administrative expense allowance is justified. Your support of H. R. 68 is appreciated, and your continued support is necessary.

Sincerely,

NORMAN E. BECK,
Director, Student Financial Aids.

NATIONAL ASSOCIATION OF STUDENT FINANCIAL ADMINISTRATORS,
Washington, D.C. May 29, 1973.

HON. JAMES G. O'HARA,
Chairman,
Special Subcommittee on Education,
Cannon House Office Building,
Washington, D.C.

DEAR CHAIRMAN O'HARA: The National Association of Student Financial Aid Administrators would like to extend its testimony on HR 68, a bill to provide a cost allowance to institutions for the processing of guaranteed student loans. There are several comments that should be made in response to the position of the Administration as reflected in their testimony of April 4 of this year.

First, the administration's position seems to assume that the analysis of need is the only function performed by the institution, and thus the investment of time is not sufficient to warrant any cost allowance. As we indicated in our original statement, there are many other administrative tasks involved in the guaranteed student loan program. These functions have produced a strain upon institutions since the beginning of the program. We have been performing these without reimbursement over the years because the program benefits our students and their families, making enrollment less of a financial burden. The addition of the needs test was only "the straw that broke the camel's back" so far as we are concerned. Were it the only involvement of the institution in the program, we might agree that no cost allowance was justified. However, such is not the case.

Secondly, we must take exception to the assertion that a substantial number of guaranteed loan applicants have other forms of aid through the institution and therefore do not require a separate analysis of need for the guaranteed loan program. A survey conducted by this Association since the Administration's testimony reveals otherwise. The percentage of guaranteed student loan applicants who do not apply for other types of aid (and thus require need analysis solely for guaranteed loan purposes) varies by type of institution. In all three categories, however, substantial numbers of students cause additional work in the financial aid offices across the country. By type of institution, the results of our survey are as follows:

Type of institution	Number of schools in sample	Percent of applicants requiring analysis solely for GLP
2 year schools	33	71
4 year public	40	64
4 year private	51	47

As might be expected, the percentage of strictly guaranteed loan applicants decreases as the cost of the institution increases. None of the figures, however, support the contention that "*many* of the guaranteed loan applicants have other sources of financial aid from their institutions; for these students the institutions have already performed such needs analysis." A few sample letters illustrating this point are attached.

Thirdly, we would challenge the suggestion that all that is involved in need analysis is the copying of the results of the standardized analysis onto the guaranteed loan form. In the first place, the need analysis services continually caution aid officers against accepting without question the output of their analysis. Even standard analysis procedures do not avoid the human errors of misinterpretation, incorrect key punching, editing oversights, etc. Each case must be thoroughly reviewed. Additionally, the regulations of the guaranteed loan program call for a special evaluation of the need analysis to assure that the result provides the most reasonable expectation possible. While the intent of this element of the regulations is not very clear, it suggests that the standard analysis *requires* additional evaluation, not routine copying of the results to the guaranteed loan form. A copy of the regulations and the institutional instructions are attached for your reference. It would seem that the Office of Education is calling the process "routine" for one purpose and implying a special responsibility for another purpose.

There is one point upon which the Association agrees with Dr. Muirhead's testimony. We would also prefer that the cost allowance be computed on a per application basis, rather than a percentage of loan volume insured. As the Office of Education testimony (and ours) points out, a small loan is no less costly to process than a large one, nor is an application that does not culminate in a loan less time consuming to handle than one that is actually insured. Our support for the one percent of insured volume approach was simply a recognition of the political reality of receiving approval of a technical amendment correcting a drafting omission versus a new concept not previously agreed to in Conference. We would prefer a per application approach for the very reasons given by Dr. Muirhead

On the other hand, we see no reason why the per application payment cannot be accommodated within the context of HR 68. So long as the allowance per application did not exceed 1% of the volume, the Commissioner has the authority to set up the mechanism for providing payment.

We would take exception with the contention that schools also serving as lenders should not receive the cost allowance. The suggestion that these institutions are already being amply rewarded fails to recognize that few schools are serving as lenders because of the financial benefits of the program. Almost without exception, schools are serving as lenders because the availability of loans from commercial sources is not sufficient to meet the needs of the students. When the costs of operating as a lender are considered, most schools are making a financial sacrifice to participate. Attached is a report of the cost of the guaranteed loan program to a large commercial lender. If a financial institution specifically designed to lend money cannot break even in the program, it seems unlikely that an educational institution will be in any better financial position.

We could agree, however, that a maximum allowance per institution, as is already being done with the college-based programs, might be a sound inclusion into HR 68. Certainly the costs of administration become proportionately less as the numbers of applications processed becomes larger.

Lastly, we would respond to the assertion that the institution should be willing to bear the cost of administration because the school is the beneficiary of the function as a result of the revenues generated. No reasonable person would disagree that adequate support of the financial aid office should be provided from institutional funds. But where are these funds to come from other than increasing cost to all students? Institutional operating budgets are already stretched to the breaking point. They are no longer able to absorb all the costs inherent in federal program procedures, which are anything but simple and inexpensive to provide.

NASFAA would therefore urge the Special Subcommittee to proceed with the consideration of HR 68, hopefully reporting it out of the full Committee as soon as possible. Many institutions are in urgent need of word that the cost allowance is to be forthcoming so that adequate staff can be obtained to process the mounting workload of guaranteed loan applications.

We would be happy to work with the Subcommittee to develop more fully some of the refinements suggested herein.

Sincerely,

(Mrs.) EUNICE L. EDWARDS.

SYRACUSE UNIVERSITY,
Syracuse, N.Y., May 9, 1973.

MR. RICHARD TOMBAUGH,
Executive Secretary, NASFAA,
Washington, D.C.

DEAR DICK: During each of the past three years, more than 6,000 students at Syracuse University applied for educational loans under either G.S.L.P. or F.I.S.L. We are finding that nearly 45 percent of the loan applicants for 1973-74 have not previously submitted financial statements for consideration for additional aid through our regular aid program. Consequently, to handle the added number of financial statements, we have had to add two new people to our professional staff, and two new secretaries.

In developing a formula for an administrative reimbursement to institutions, I prefer that the emphasis be placed on volume of applications processed as opposed to amount of guaranteed loans recommended or actually approved. It requires as much effort on our art to derive a zero recommendation as it does to determine an applicant's need for $2,500.

I should point out also that it is our decision to follow the income tax method for determining need for all students applying for a guaranteed loan only. This means we have to hand compute each student's need, or lack thereof, yet we believe we can process applications in this manner faster than if students filed either of the CSS or ACT with the appropriate agency.

I hope that this information is helpful to you as you review with Congress the burden of the new G.S.L.P. regulations upon institutions.

Sincerely,

ARTHUR J. FRITZ,
Director of Financial Aid.

NIAGARA UNIVERSITY,
Niagrara University, N.Y., May 15, 1973.

MR. RICHARD TOMBAUGH,
Executive Secretary,
NASFAA,
Washington, D.C.

DEAR MR. TOMBAUGH: This information is offered per your request at the EASFAA meeting: In checking our applications for federally guaranteed loans for 1972-73 we found that 25% (or slightly over 200) of the loan applications had never had need analysis done, therefore, for the 1973-74 school year we would estimate that we will be doing 250 additional need analyses.

Also, should the proposal for NYHEAC be passed, the Financial Aid Office will be required to inform guaranteed loan borrowers of their obligations, both at the time the loan is approved through us and also at the time the student leaves school.

If you should need additional information, please do not hesitate to contact me.

Sincerely yours,

REV. JOSEPH G. DUNNE, C.M.,
Executive Vice President,
Chairman Committee on Financial Aid.

WIDENER COLLEGE,
Chester, Pa., May 11, 1973.

MR. RICHARD L. TOMBAUGH,
Director of Financial Aid,
George Washington University,
Washington, D.C.

DEAR MR. TOMBAUGH: Responding to your request at EASFAA for GLP data, Widener College offers the following:

Total number of students having guaranteed loans 1972-73, 248; Number of students having GLP but no other aid, 133; Percent who in 1973-74 would require a separate need calculation, 54%.

Hope this is useful.

Sincerely,

LEWIS I. SHIPMAN,
Financial Aid Officer.

BALL STATE UNIVERSITY,
Muncie, Ind., April 26, 1973.

MR. RICHARD L. TOMBAUGH,
Executive Secretary,
NASFAA Central Office and Placement,
Washington, D.C.

DEAR DICK: Please forgive my delay in sending you the important information you requested during our recent I.S.F.A.A. retreat.

Based upon a sample population of 25%, we processed 2,922 loan applications to cover the period September 1972 through June 1973. Of the total, 789 students also applied for financial aid through Ball State University. This represents 27% of the total. Therefore, 2,133 students or 73% applied for a Guaranteed Loan only, thus requiring a separate needs analysis to complete the OE Form 1260. This creates a separate procedure, and involves a large amount of time. Also, based upon our experience under the new regulations since March 1, well over 60% of the students for whom we process a loan application return to discuss how we arrived at the recommended figure. Again, this takes time and time is money.

There is no question in my mind that an administrative expense allowance for Guaranteed Loans is warranted. I hope the above information will help substantiate our position.

Sincerely,

JOHN H. STARNES,
Assistant Director,
Student Financial Aids.

DREXEL UNIVERSITY,
Philadelphia, Pa., May 11, 1973.

MR. RICHARD TOMBAUGH,
Assistant Director Financial Aid,
George Washington University,
Washington, D.C.

DEAR MR. TOMBAUGH: As per your request at the E.A.S.F.A.A. convention in Philadelphia last week, I submit the following survey of Pennsylvania State Guaranty Loans processed for the 1972-73 academic year.

Students with Pa. GSL's only, 414 (52.4%); Students with Pa. GSL's and other financial aid, 376 (47.6%); Total Pa. GSL's processed 790 (100.0%).

I hope this survey provides the necessary information for your purposes.

Sincerely yours,

JOHN S. FREEMAN,
Asst. Dir., Fin. Aid.

UNION COLLEGE,
Schenectady, N.Y., May 10, 1973.

MR. RICHARD TOMBAUGH,
Executive Secretary, NASFAA,
Washington, D.C.

DEAR DICK: In answer to your request for data on the processing of Guaranteed Loans by our respective colleges, I present the statistics for Union College for the academic year 1972-73.

My best estimate is that we processed around 400 of these, of which approximately a 100 were students who were applying for the Guaranteed Loan and were not receiving any other financial aid from the College. This figure of 400 represents a quarter of our total undergraduate enrollment.

Unfortunately, most of our involvement and contact initially in this program is through the mails. I point this out because this procedure necessitates mailings from our office to the students directly, which places a real burden on our staff, time, and mailing costs, the latter not having been incorporated in my office stationary and stamp budget, let alone the staff time involved. Our Business Office comes up with a figure of $3.00 plus for each letter we produce in this office. Assuming just one letter, and this is most conservative, per student, we come up with a figure of approximately $1,200.00 of added costs as a direct result of the GLP requirements.

We're all having a helluva time adhering to the pressures from the business office and the administration to keep expenditures within a reasonable range, without having this thrown at us at this most critical period of belt-tightening.

Good luck!

Most sincerely,

JOSEPH T. MARAS,
Director of Financial Aid.

INDIANA STATE UNIVERSITY,
Terre Haute, Ind., April 26, 1973.

MR. RICHARD L. TOMBAUGH,
Director of Central Office,
National Association of Student Financial Aid Administrators,
Washington, D.C.

DEAR DICK: Thank you so much for your contribution at our Spring Retreat. It was certainly valuable and it has turned out that you have really brought us up-to-date with the recent Congressional action.

In regard to the problem of additional work with completing FISL applications, we reviewed our FISL applications and find that approximately 2,000 students are applying for FISL only. This is 2,000 students for whom need analysis must be done. This 2,000 is over and above the normal work load in the Office of Student Financial Aids and has created many problems.

To process a FISL application, we have estimated that it takes approximately one hour per application after we have all of the necessary information. Naturally with the supplement being required with notary, etc., we are having to mail information sheets to students and ask for additional information before we can even begin completion of the application.

Very truly yours,

MARK H. WILLIAMS,
Director, Student Financial Aids.

PURDUE UNIVERSITY,
West Lafayette, Ind., April 26, 1973.

MR. RICHARD L. TOMBAUGH,
Associate Director of Financial Aid,
The George Washington University,
Washington, D.C.

DEAR DICK: At the recent ISFAA meeting, you requested information on the number of students who are receiving both FISL/GL and aid from the institution. In doing a quick random check of students receiving aid on the Lafayette Campus at Purdue University, we found that 20 out of 196 are receiving aid from both the institution and from the FISL/GLP. In addition, 19 others were receiving assistance from the State Scholarship Program.

From the above, it is obvious that approximately 90% of the Federally Insured/Guaranteed Loan applicants are requesting assistance from that program only. Thus, since there are approximately 2300 students at Purdue applying for these funds, we will now be required to do need-analysis for approximately 2000 more students.

Hope this information is of help to you and that all is going well in Washington.

Sincerely,

DONALD HOLEC,
Director, Division of Financial Aids.

TAYLOR UNIVERSITY,
Upland, Ind., April 19, 1973.

MR. RICHARD TOMBAUGH,
Executive Secretary,
National Association of Student Financial Aid Administrators,
Washington, D.C.

DEAR DICK: It was nice to see you back in Indiana again for our ISFAA meeting. I appreciated your comments on the Washington scene and thought they were very timely.

You asked us to send you information concerning the number of students who applied for ISFL for whom we also did a need analysis for the college based programs. For this current year we have processed 265 ISFL applications. Of these, only 38 received funds from the other federal programs.

I trust this information is useful as you speak with the Congressional Committee dealing with HR-68.

Sincerely,

J. L. FRITZSCHE,
Director of Financial Aid.

CALIFORNIA STATE UNIVERSITY, SAN JOSE,
San Jose, Calif., June 22, 1973.

MR. CARL PERKINS,
Chairman, Committee on Education and Labor,
Rayburn House Office Building,
Washington, D.C.

DEAR MR. PERKINS: I am writing in support of your recent amendment, H.R. 63, which would provide a 1% Adminstrative allowance to educational institutions for the considerable time and paper work involved in properly administering the Federally Insured Student Loan Program.

As the Associate Director of Financial Aids at one of the largest educational institutions in California, and as the person directly responsible for administering the University's Federal Insured Student Loan Program, I would like to enumerate from our office's own experience the time and cost involved in attempting to adequately administer this program.

1. Size

In a recent letter from William M. Simmons, Jr., Director of the Division of Insured Loans, we received HEW's official tally of our loan activity for Fiscal Years 1970, 1971, and 1972 (copy attached). Our own unofficial record of this year's activity would mirror the amounts of fiscal year 1972.

According to these figures, we are averaging 2,500 loans per year and no decrease is anticipated for F/Y 1974. There are at least another 400-500 students per year who begin applying for the loan and subsequently change their minds. In general our office is dealing with approximately 3,000 students per year who are seriously applying for this loan.

2. Time

Prior to March 1, 1973, our office spent a considerable amount of time in making applications available, completing OE form 1154, answering student questions, logging and posting check receipts, mailing, phoning, etc. During the peak season of August through November, we hired at our own expense an additional clerk to work on this program full-time. With the new regulations of March 1, 1973, we are now required to do all of the above plus complete a supplemental application OE 1260, in most cases personally interview the students, complete a need analysis, keep accurate and current files on each individual student, explain at more length the new regulations (especially where interest benefits are being waived), and communicate with the banks much more frequently. The Student Financial Statement that we now require (at cost to the student) does not appreciably lessen the additional time involved since we must make and document individual judgments in many instances.

Our office has just completed a Work Load Survey on all our Financial Aid Programs. On the section that pertains to the FISL Program (copy attached), it indicates that we expend 3,115 clerical man-hours per year. This is the equivalent of 1.5 positions on a full-time basis (8 hours/day x 261 days). This does *not* include the time of the professional staff which was estimated at a minimum of 1,250 man-hours per year.

3. Cost

The State staffing formula is currently based on full-time enrollment. It does not always reflect the actual work load of any particular division. It is obvious from the growing concern with student financial aid in general that the Financial Aid Offices should be adequately staffed in proportion to the real work load. Our present staffing is barely adequate to cope with the demands and complexities of our regular Federal, State, and local program.

In addition to the necessity to hire additional clerical help at times, it is evident from the above statistics that we desperately need the funds to hire at least the equivalent of one full-time clerical and professional person for the entire year. There are also the hidden expenses of attending regional FISL meetings, long distance phone calls to Regional Program Officers, calls to out-of-town students and banks, mailing costs, printing costs, general office costs for supplies such as folders, master cards, files, etc., for each applicant.

My best estimate would be that we spend at least $20,000 per year administering this program in terms of time and hidden costs.

Conclusion

I have attached a copy of the FISL application which we are currently using under the new regulations. I am personally pleased with the March 1 changes. But I wish to strongly support your amendment. We simply cannot sustain a high level of service in this program without additional help. It is evident that more and more students will be dependent on the FISL Program. We have already reached the breaking point in size, time and cost.

Sincerely yours,

RICHARD C. PFAFF,
Associate Director, Financial Aids.

Enclosures.

SAN JOSE STATE COLLEGE

	Amount	Number of loans	Average amount
Fiscal year:			
1972	$2,546,098	2,474	$1,029
1971	2,641,626	2,539	1,040
1970	1,665,014	1,569	1,061

CALIFORNIA STATE UNIVERSITY AND COLLEGES, STAFFING WORKLOAD SURVEY, FINANCIAL AIDS

	A	B	C	D	E
B. FISL applications	Level of personnel	Average length in minutes	Total number of students per year	Times per student	Total minutes (BxCxD)
1. Receive, sort, date stamp, and check applications for vital information.	CA II A	3	3, 000	1	9, 000
2. Check all applications for existing files	CA II A	3	3, 000	1	9, 000
3. For those applications with existing files, pull files and update.	CA II A	7	1, 500	1	10, 500
4. Update master record file and appropriately label current file.	CA II A	6	1, 500	1	9, 000
5. For those with no existing files, type a new label and file, designate as current. Type master card.	CA II A	8	1, 500	1	12, 000
6. Verify admissions status	CA II A	1	500	1	500
7. Review all applications and sort by category for obtaining necessary support documents, i.e., financial aid transcript for transfer applicants, Application for self-support status, PCS, 1040, FFS, etc.	CA II A	2	3, 000	1	6, 000
8. Pull incomplete applications and return to applicants requesting missing information.	CA II A	10	800	1	8, 000
9. Requesting by mail support documents in 7 above.	CA II A	5	800	1	4, 000
10. Receipt of same, date stamping, filing in current folder for additional review.	CA II A	8	800	1	6, 400
11. Pull all completed applications and forward to appropriate staff for need analysis review.	CA II A	3	3, 000	1	9, 000
12. Complete OE1154 and 1260	CA II A	15	3, 000	1	45, 000
13. Notarize forms for applicants, i.e., affidavit of educational purpose, other documents as necessary.	CA II A	3	2, 500	1	7, 500
14. Distribute completed FISL application to applicant, either by mail or in person.	CA II A	2	3, 000	1	6, 000
15. Receipt and acknowledge checks and post to master records.	CA II A	8	2, 500	1	20, 000
16. Enrollment status report	CA II A	2	9, 000	1	18, 000
17. File maintenance	CA II A	2	3, 000	1	6, 000
18. Other					
19. Returning unclaimed checks	CA II A	5	200		1, 000
Total					186, 900

Posted______________Page__________________/________
Date Initials

CALIFORNIA STATE UNIVERSITY
SAN JOSE
OFFICE OF FINANCIAL AIDS

____ASB § ____________Units ____________
Last name First (During period of aid)

____ ______________ ____________
Address City State ZIP code Social Security No. Telephone No.

In order to process your federally insured loan application, the following information is required:

Student status: Half-time__________ Full-time__________

If undergraduate: Anticipated date of graduation from college Month____Year__

If graduate: Anticipated date of completion of graduate work Month____Year__

Academic year: 1st ____ 2nd____ 3rd____ 4th____5th____ Grad______

During period of aid.

Presently attending California State University, San Jose Yes____ No____

Transfer Student______(application cannot be completed until you notify Financial Aids Office of your acceptance to Calif. State Univ., San Jose).

Before completing the proper forms, you must contact the local lending agency of your choice. Be sure you discuss with the Bank Loan Officer their lending policies: loan maximum, period of loan (academic year, semester, summer) age limitations, Freshman eligibility, minimum units required, etc.

Name of bank__________Person contracted__________Phone (bank)__________

Period of loan ________/________ to ________/________
month year month year

When check is picked up at financial aids office, please sign below:
Received Federally Insured Loan Check for $________ on ________ ____________
Date Name of bank
Application picked up/received____________ ________________________
____
(Rev. 5/73jav) __________________________/ ____________
Student's signature Date

FEDERALLY INSURED STUDENT LOAN PROGRAM

DEAR STUDENT: The application which you have requested and have been given is for a Federally Insured Student Loan, which has been authorized by the Higher Education Act and the National Vocational Student Loan Insurance Act. This Program enables students to borrow from participating lending institutions to help pay their education costs while attending school.

These loans are insured by the Federal Government. The interest rate is 7% simple interest per annum. The Government will pay the interest accrued while you are in school and during a 9-month "grace period" *if you are eligible for the Federal Interest Benefits.* The Financial Aids Office determines who is eligible for these benefits. If you are not eligible, you may still possibly obtain a loan but you must pay the entire interest accumulated during the loan period.

WHO MAY BORROW

Any student desiring to pursue a post-secondary education is eligible to apply for a loan provided he or she:

(1) is enrolled and in good standing or has been accepted for enrollment at school;

(2) is carrying the required number of units as determined by the school and lending institution;

(3) is a citizen or national of the United States or is in the United States for other than a temporary purpose.

MAXIMUM LOAN AMOUNT—UNDERGRADUATE AND GRADUATE STUDIES

$2,500 maximum per year.
$10,000 maximum for all undergraduate and graduate years combined.
$750 maximum for summer session.
(Maximum loan amounts and other regulations may vary depending on the policies of the lending institutions.)

REPAYMENT

Repayment of this loan begins not earlier than 9 months nor later than one year after the date of graduation or withdrawal from school. The minimum annual repayment is $360. The loan may be repaid over a term of 1 to 10 years. Repayment will be deferred while the borrower is a member of the Armed Forces, a volunteer in the Peace Corps or Vista, or for any period during which he is pursuing a full-time course of study at an eligible school. The entire amount owed on a loan by a student who dies or becomes permanently and totally disabled will be paid by the Federal Government.

LOAN APPLICATION PROCEDURES

The student first obtains an application from the school. Attached is a *Student's Financial Statement* (1973-74) which must be completed and sent to the College Scholarship Service with the $3.50 fee. Be sure to list California State University, San Jose, in item #15. If our office already has a 1973/74 SFS or PCS (Parents' Confidential Statement) from you on file, you need not complete this form. Next, you must complete Parts A and B of the Bank Form and Part A of the Supplemental Application. Then call the lending institution of your choice to be sure that you are eligible under their policies of age, unit load, period of loan, depository relationship, etc. Most lending institutions will not allow "cross borrowing".

Return the application forms to the Financial Aids Office. If the Student's Financial Statement (SFS) has returned from Berkeley, our office can complete the forms within 5 to 7 days. You then take the forms to the lending institution. The lender, upon receiving this application from the student, will review it for completeness and accuracy. At this point, the lender will ACCEPT or DECLINE the student's application. We wish to point out that the lender is not required to accept this application if it chooses to decline it. The student should be aware and keep in mind that the lender is under no regulation that says it must accept this application. It is recommended that the student's attitude be one of need rather than demand.

After your loan has been accepted by the lending institution, they will forward it to the Federal Government for approval. Following this, the lender will make out the loan check and forward it to the school for disbursement. You should contact the Financial Aids Office to ascertain if your loan check has been received. Upon presentation of your Student Body Card to the Financial Aids Office, you may obtain your check. This could take a number of weeks. Do not expect this loan to be completed in a few days.

INSURANCE PREMIUM

The Office of Education charges the lender an insurance premium of one-fourth of one percent per year on the amount disbursed for the term of the in-school note. The lender may collect the premium from the borrower or deduct it from the proceeds of the loan.

Sincerely yours,

DONALD R. RYAN,
Director, Financial Aids.

OFFICE OF FINANCIAL AIDS—APPLICATION INSTRUCTIONS FOR FEDERALLY INSURED BANK LOAN[1]

1. You must complete:

(a) *Student Financial Statement 1973/74*—This form is not necessary if we already have a Parents' Confidential Statement or Student's Financial Statement 1973/74 from you on file.

(b) *Student Application for Federally Insured Loan*—(Parts A and B only) OE Form 1154.

(c) *Student Loan Application Supplement*—(Part A only—3 copies) OE Form 1260.

2. Send the SFS to the College Scholarship Service in Berkeley with the $3.50 fee. Bring the completed OE Form 1154 and 1260 to our office. It will take us from 5 to 7 days to process the forms *after* we have received the SFS results from Berkeley.

3. Be sure you explain in the Student Financial Statement any unusual financial circumstances. In some cases a personal interview may be necessary to determine your eligibility.

LOAN LENDING AGENCIES

Agency	Address	Contact person	Telephone No.
Bank of America	2d and San Carlos	Mrs. M. Platt, Mrs. Dee Jackson	277-7267
Bank of California	do	Mr. Jesse Fair, Mrs. Susan Gleason	297-8280
Crocker National	101 W. Santa Clara	Mrs. Edna Marty	298-2525
First National	1st and Santa Clara	Mr. Terry Caufield	294-4024
Great Western Savings	111 No. Market	Mr. Larry Dodson	248-9200
Security Pacific	65 W. Santa Clara	Mrs. Gwen Dully	286-5500
United California Bank	226 So. 1st St	Mr. George DeBok	297-2576
Wells Fargo	121 So. Market	Anyone	277-6176

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[1] Before completing the proper forms, you must contact the local lending agency of your choice. Be sure you discuss with the Bank Loan Officer their lending policies: Loan maximum, period of loan (academic year, semester, summer), age limitations, Freshman eligibility, minimum units required, etc.

HIGHER EDUCATION LOAN PROGRAMS

THURSDAY, JULY 26, 1973

House of Representatives,
Special Subcommittee on Education,
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to notice, in room 2218, Rayburn House Office Building, Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Lehman, Dellenback, Erlenborn, and Huber.

Staff members present: Jim Harrison, staff director; Al Franklin, counsel; Elnora Teets, clerk; William F. Gaul, full committee associate general counsel; William Cable, full committee counsel; Robert Andringa, minority staff director; Christopher Cross, minority legislative associate.

The Special Subcommittee on Education is meeting here today to examine the problems which are reported to exist with respect to the guaranteed student loan program.

Last year in the Education Amendments of 1972, the Congress sought to make guaranteed subsidized loans available to a wider spectrum of the public by extending eligibility for such loans to persons with incomes over $15,000 and by raising the loan ceiling itself.

At the same time language was adopted which was intended to prevent alleged abuses, such as the lending of money to students who did not in fact need such money for their education.

Reports we have been getting from throughout the country seem to suggest that the efforts of last summer have not been wholly successful. At any event the number and dollar levels of student loans seem to be seriously declining and last year's amendments or the regulations issued pursuant thereto or the reactions of schools and lenders to those amendments and regulations are variously held to be responsible for that decline.

With the agreement and cooperation of Chairman Perkins and Mr. Quie, this subcommittee has sent a team of staff members out into the field to visit seven regional offices and to talk with lenders, student aid officers and state guarantee agencies to find out the scope of the problem and to report back on their findings.

Jim Harrison and Al Franklin of the subcommittee staff, Bill Gaul and Bill Cable of the full committee staff, and Bob Andringa and Chris Cross of the minority staff went to Kansas City, Atlanta, Dallas, San Francisco, Seattle, Boston, and New York to conduct these discussions.

We will begin this morning's proceedings by having the staff present their report and briefly answer questions on the facts they discovered.

Let me make one procedural request of the members of the Subcommittee at this point. The staff was strictly enjoined to find facts and to leave the making of legislative recommendations where it must stay, with the public and with the members.

To avoid putting the staff in an embarrassing position, I would appreciate it—and I know they would—if we could confine our questioning of them to what they learned, and not what they believe ought to be done. I am sure that the staff will be giving us individual advice and counsel on what they believe ought to be done in the appropriate way and at the appropriate time.

Following the staff report I will ask the several witnesses who have come to testify today to file their individual statements and to take places together at the witness table so that we can have a general discussion of the problem, of their analyses of the cause, and their recommendations for cures.

Finally let me say that although the House goes into session at 10, I do not plan, absent objection, to adjourn this sitting at that time. The House rules permit us to continue to take testimony until the House gets into the phase where it is reading the bill for amendments. And that will be quite a ways off.

If we have a quorum call we can cope with it at the time it occurs.

We now would like to ask the staff to advise the members of the Subcommittee what they found with respect to the guaranteed student loan program, the number of loans, the dollar amounts, and some of the other information they gleaned in their investigation.

Mr. HARRISON. Pursuant to the instructions of the chairman of the subcommittee, the chairman of the full committee, and the ranking minority member of the full committee, several members of the staff visited seven regional offices of the Office of Education during the period July 16–23, to inquire into reports of problems with the Guaranteed Loan program.

The staff members traveling and their itinerary was as follows:

Kansas City, Mo., July 16.—A. C. Franklin, Subcommittee Counsel; William H. Cable, Full Committee Counsel; Christopher Cross, Minority Legislative Associate.

Atlanta, Ga., July 17.—Franklin and Cable.

Dallas, Tex., July 18.—Jim Harrison, Subcommittee Staff Director; Robert Andringa, Minority Staff Director.

San Francisco, Calif., July 19.—Harrison, Cable, Andringa.

Seattle, Wash., July 20.—Andringa.

New York, N.Y., July 20.—Franklin, Cross, and William Gaul, Full Committee Associate Counsel.

Boston, Mass., July 23.—Harrison and Andringa.

In all seven of these site visits, the format was similar. School aid officers, officials of lending institutions, and officials of State Guarantee Agencies were invited to come to the regional office to talk frankly with the staff members and to answer questions and express their own concerns. No effort was made to summon a representative cross-section of the various communities, nor was there a formal transcript made of any of the meetings. The staff has kept lists of names of those in attendance, but they have deliberately not been included in this report, because the persons in attendance were urged to speak in an individual, rather than a representative capacity. In some of the meetings, the staff met with the school and bank officials simultaneously; in others, separately. At some of these meetings, HEW officials were present. At others, they were not. It is the unanimous observation of the staff that the substance of the meetings and cooperative spirit displayed were much the same whether or not the various groups were together.

We also believe it would be useful to say for the record that the attitude of the agency officials and the other persons invited to the meetings was uniformly constructive, helpful and concerned primarily with getting at the facts. Some of the participants were more obviously there as advocates than were others, but at no time did pointmaking take precedence over efforts to help us find the facts.

The following observations are generally subscribed to by all the staff members who participated in these sessions. Not all of us would subscribe to every letter of what appears in this report, but none of us discern major errors of reporting.

The staff members do not believe we were commissioned to make recommendations for legislative solutions to any of the problems we observed, and we sought to avoid that in this report.

I. SCOPE OF THE PROBLEM

1. Before we departed Washington, all of us had been told that the loan volume — so far in 1973 — that is, amount of money lent and the number of borrowers having loans approved — was down substantially from last year's corresponding period. Although an occasional lender or school felt the figure too high, it was the clear consensus of those to whom we talked in the field that the program was down 40 percent or more as compared to this time last year. Unusual backlogs of applications are on the desks of some student aid officers, but no one asserted that this accounted for the major part of the drop-off. The field trip confirmed that in calender 1973 dollar volume is generally lower, month-by-month, than for any year since 1970.

2. Unsubsidized loans are being made only rarely, but this is not inconsistent with the general pattern of lending institutions in earlier years. So we found evidence neither of any dropoff in unsubsidized loans nor that unsubsidized loans were taking up the slack.

3. Most lenders decline as a matter of policy to make split loans—a subsidized loan for the amount recommended by the institution and an unsubsidized loan for the remainder of the student's request.

4. While everyone felt that the net volume of the program would decline this year, there was some disagreement as to the precise mathematics of the decline. It was widely believed by those to whom we talked that the situation would improve; however, the number of borrowers would be less than before and the amounts of

individual subsidized loans would be reduced. Yet statistics provided us by OE suggested that the average loan was actually going up by a few dollars.

II. EFFECT OF THE DECLINE

1. In each of the meetings, the participants were asked if this year's decline represented an actual drop in the number of students who would be attending school or merely a drop in the number who would do so with the help of guaranteed loans. The reactions to this question were not uniform. In Atlanta, Dallas, San Francisco, Kansas City, and New York, aid officers felt strongly that some rejected borrowers would be unable to attend the schools they chose initially, but the aid officers were reluctant to assert that substantial numbers of students would be out of school. In Boston, however, the aid officers did assert that a "substantial" number of students would be unable to register in the fall. All of the officers questioned felt that the difficulty in obtaining loans would work a hardship on many students and their families.

2. There was a general belief, attested to by both student aid officers and lenders, that the most serious reductions in previous loan levels are being felt by students whose adjusted family incomes are $10,000 and up. Although there were horror stories told of students from families having lesser incomes being found lacking in need for any loans, most turndowns were in the middle-income bracket.

3. While some student aid officers and most lenders admitted their own and complained of each other's unwillingness to exceed the recommendations produced by the need analysis computer—or received by the bank from an aid officer—they repeatedly suggested that the recommended amount least likely to be changed was one assessed by the computer as zero. In other words, student aid officers occasionally, and banks very rarely, were willing to increase a small recommendation, but they were almost never willing to grant any loan to a student with a zero recommendation, treating the zero recommendation virtually as a barrier to a subsidized loan.

4. Many lenders have selective policies, refusing to lend to freshmen, or to students who had no previous customer relationship with the bank. The lenders did not seem inordinately distressed to learn that such policies might make them ineligible for participation in SLMA.

III. REASONS

A. Program-related reasons:

1. (a) The most frequently and urgently stated reason for the decline was the needs analysis requirement. "You have changed the program," one could paraphrase much of what was said, "from loans of convenience to loans of necessity. It is no longer a program for middle-income people. It is now for those who can demonstrate need."

(b) A frequently voiced complaint was that the needs test multiplied the paperwork involved and tripled application processing time.

(c) By those participants who agree to a needs analysis in principle, there was substantial criticism of the existing needs analysis systems as leading to results which were variously described as ranging from unfair to absurd.

2. (a) Paradoxically, although no one had a good word for the needs analysis systems, almost no one was willing to depart from the needs figures that system prescribed. There were, in each of the regional meetings, aid officers who claimed a willingness to depart from the needs analysis result and some lenders who said they were willing to exceed the recommendation of the loan officer. But they were a minority.

(b) It was not always immediately apparent, but careful questioning elicited in each meeting a deep underlying apprehension about the fate of an institution whose aid officer regularly exceeded even patently absurd needs analysis computations at the hands of some future HEW or GAO auditor. Audits of the recent past have left discernible psychic scars on aid officers.

3. There was some ambivalence as to where the participants wanted the responsibility for choice actually lodged. Some aid officers and some bankers indicated that they felt they were professionally competent to make those judgments and just didn't want Big Brother and his auditors second-guessing them. Others—aid officers and bankers alike—argued that they did not, in fact, know their clients personally and well enough to make these judgments and they wanted further guidance in writing from the government. It seemed to us that those who wanted authority and responsibility were substantially outnumbered by those who did not.

4. Bankers who were willing to exceed the institution's recommendation did ask for access in some manner to the kind of data available to the student aid officers through the parents' confidential statement. They were, of course, wholly respectful of the confidential nature of the PCS, and did not expect to be shown it. But they did think that a synopsis of the information it contained would enable them to make better judgments as to the adequacy or inadequacy of the aid officer's judgment.

5. There was widespread criticism of HEW because of:

(a) The absence of a program manual.

(b) Inadequate guidance as to what constitutes "adequate documentation" for a recommended increase over the needs analysis figures.

(c) Apparent ambivalence in OE as to the relationship between the expected family contribution and the guaranteed loan itself.

(d) What some viewed, rather convincingly, as the fallout from an internal struggle within the Office of Education between those who wanted the guaranteed loan program to be strictly needs oriented and those who thought of it as a liberalized version of what had begun as the "middle-income family's student aid."

6. It was repeatedly asserted that OE had departed from congressional intent. Floor comments about the "presumption of need" for persons with income of under $15,000 were cited, and those citing them felt that the program as administered—or perhaps the statute as written—had not reflected that kind of assumption.

7. OE's delay in announcing the latest special allowance was cited once or twice.

8. The great delay in announcing the 1973 allocations and guidelines for other student aid programs was cited repeatedly as adding to the slowness and possibly to the decline in loan applications and approvals.

B. Non-program-related reasons:

1. A general decline in the number of loan applications was cited by several, but not all, aid officers.

2. In one meeting, at least, the commercial bankers affirmed that the fact that, notwithstanding the special allowance, they could make more money in other areas tended to discourage them from active participation in this program—even it were further sweetened. In the same meeting, in fact, the commercial bankers participating were unanimous that they lost money on the program. Some asserted they were in it only for reasons of community service or to create goodwill. One banker used the phrase "to recruit customers." The motivations of other types of lenders were varied.

3. Frequent staff changes at aid offices and in lending institutions, and the low-priority college administrators put on staffing the aid offices were both mentioned as slowing down the work of these offices.

4. A lack of direct contact between schools and prospective borrowers and between lenders and prospective borrowers was mentioned.

5. With the end of the draft, with the inflation of educational costs, and for other, perhaps deeper reasons, there seems to be a gradual lowering of the value people are putting on higher education. A parent who would use his savings a few years ago to send his child to college, or a student who would mortgage his own future earnings to enter or remain in college is not as frequently encountered today.

IV. A RECOMMENDATION, AFTER ALL

Having piously eschewed any intention or authority to make recommendations at the beginning of this paper, the staff members who made these trips do have one recommendation which we believe should be implemented whatever the legislative or administrative action taken to meet the existing situation.

We found in region after region that our meetings, bringing student aid officials and lenders together in large numbers was an innovation. For each group, the other was, prior to our meetings, an anonymous group of shadow figures at the other end of a paper chain or a telephone. But they did take advantage of the opportunities to exchange views and they appeared to benefit substantially from meeting together. And we think they should be brought together to discuss their common problems—and the problem of their mutual clients—the student and the student's family.

That is our report, Mr. Chairman, and we are ready to answer your questions.

Mr. O'HARA. Thank you, Mr. Harrison. I wonder if any of the other staff have anything they would like to add to Mr. Harrison's presentation before the committee asks any questions? Let me ask this. I was very interested by your observation that your visit to these locations resulted in a bringing together of the various elements of the Guaranteed Student Loan System, and that this was an unusual thing, and in fact they seemed to benefit from these meetings.

Earlier you had stated that most lenders did not make the nonsubsidized loans, that very few lenders made the loans in excess of the amount certified on the needs analysis, that very few student aid officers at college used the discretion they have to establish a need above the amount produced by a simple operation of the formula.

Do you think that any of this has been due to a lack of knowledge on the part of any of these groups with respect to what the law entitled them to do and what the law intended them to do?

Mr. HARRISON. Clearly, yes.

There was a widespread lack of understanding of what they could do.

Mr. CROSS. Some of the fundamentals of the law were really not known. We had one banker at one location who did not know there was a special allowance and did not know that he could collect on it. For years that bank, probably since the last change in personnel, has not been collecting on the special allowance.

Mr. O'HARA. OK. Do you have something, Bill?

Mr. CABLE. I was going to make that point. There was confusion about the—what the special allowance was, and the variations in it. The bankers were not very well informed in certain cases.

Mr. O'HARA. Right.

Mr. HARRISON. They knew—the loan officers and the bankers both knew intellectually that they could make a recommendation in excess of what the needs analysis computer told them or what the student aid officer told the lender.

None of them felt that they had the flexibility which we and our contacts in the Office of Education believed that they had.

Mr. O'HARA. Do you have something, Bob?

Mr. ANDRINGA. Yes. As I recall the Office of Education told us a week ago that, based on a sample of applications during the first 4 months, about 16 percent were adjusted by the financial aid officers.

On the form 1260, which I believe you have in your folders, there is section III, a and b, or line 16 and line 18. Most of us had assumed line 16 would reflect the figure that was produced by a computerized needs analysis system.

However, we found that many schools did the needs analysis by hand, and they indicated that in developing the line 16 figure, they took into account unusual medical expenses, unemployment, unavailability of nonliquid assets, and the other reasons which would more normally be reflected in the adjusted figure on line 18.

So I think it is going to be hard for us to look only at the changes on line 18 from 16 and conclude that those are the only adjustments financial aid officers are making.

Mr. O'HARA. Because sometimes there was an adjustment before they got to 18.

Mr. ANDRINGA. Sometimes there was an adjustment before they got to 18, right. And it is also going to be very difficult, I believe, to look at any general figures, 16 or 40 percent, because the variance is from zero, either out of fear or lack of knowledge on the part of a financial aid director who makes no changes in any application, to a financial aid officer who has concluded on his own to make a change in almost every application.

So the variance among schools is very high.

Mr. O'Hara. Why?

Mr. Harrison. I would like to suggest that I came away with the feeling they were willing to follow a formula. That formula in one school might be zero change, that formula in another school might be "Let's add $500 on to everybody." What they were unwilling and perhaps unable simply because of volume to do was to exercise judgment, application by application.

Some schools were very liberal in just upping everybody's need. But I didn't catch——

Mr. O'Hara. There weren't very many in betweens.

Mr. Harrison. Right.

Mr. O'Hara. In other words, a lot of them upped nobody's and a few of them upped nearly all of them.

Mr. Harrison. That seemed to be my impression and the same thing with the banks. The vast majority of them upped no recommendations——

Mr. O'Hara. They had a policy and they followed the policy.

Mr. Harrison. Yes, it was a policy and not a question of individual judgment.

Mr. Cable. A number of the larger institutions indicated to me that they would only adjust those kids who came back and complained. They ran through the process and they got a number out of the computer and they gave that and they sent it down to the bank and if the kid came back and said, "Well, this is unreal, I can't go to school with a $207 loan this year," you know, then they would look at it and then they would try to make a judgment.

Mr. O'Hara. While the staff changes their mind about what they have told us, we will go off and answer the quorum, and we will get back here as quickly as we can. I don't think any of us ought to miss this.

[Recess.]

Mr. O'Hara. The subcommittee will come to order.

The subcommittee will resume its session, hopefully without interruption for another hour or so.

Mr. Dellenback, did you have any questions that you would like to direct to the staff about their findings?

Mr. Dellenback. Mr. Chairman, yes, I appreciate the opportunity. I would like to put a couple of questions to Jim or to whoever might want to speak to them.

First, although I note in your statement that no effort was made to summon a representative cross-section of the various communities, how representative and how numerous were those interviewed?

Mr. Harrison. The biggest group I think was in Boston. We must have had 35 or 40 people in the room. More student aid officers than lenders appeared.

The smallest group that I ran into—and we didn't all go to the same places—was in Dallas. We had a half a dozen student aid officers and half a dozen lenders.

All in all, we talked to perhaps 200 people.

Mr. GAUL. I thought we calculated 70 to 80.

Mr. HARRISON. Of each, 70 to 80 of each, in that neighborhood. And I should add the State guaranty agencies were represented at just about every one of the meetings.

Mr. DELLENBACK. Did you end up with the feeling that there were any notable omissions?

Mr. HARRISON. Yes. We didn't talk to credit unions and I am sorry we didn't. In one regional meeting there were no proprietary schools invited and I regret that.

Mr. DELLENBACK. At all other proprietary schools?

Mr. CABLE. Not Kansas City or Atlanta.

Mr. HARRISON. Most of the sessions had proprietary schools. They were not represented as fully as I would like to have seen them. Otherwise, I think we got a good impression. We did not get a scientific sampling of opinion, but we got a pretty good impression.

Mr. CABLE. Mr. Dellenback?

Mr. DELLENBACK. Yes?

Mr. CABLE. If there was omission other than the proprietary schools and credit unions, I think representatives of junior and community colleges would have to have been somewhat less than their numbers, at least in the meetings that I was at. I was at three.

Mr. DELLENBACK. Those are at least three of the areas that might have been underrepresented: proprietary, junior, community, and credit unions?

Mr. HARRISON. In terms of the numbers.

Mr. CABLE. There were some of them there in most meetings.

Mr. HARRISON. Their point of view was not left out. There were articulate spokesmen for all of those groups.

Mr. DELLENBACK. So far as the general reaction was concerned, did you feel that those who participated found them valuable?

Now, you indicated in your very last part of your testimony under your recommendation what you had to say about bringing them together more directly—do we infer from that that they found these meetings valuable and expressed that?

Mr. HARRISON. So they said, yes.

Mr. CABLE. Yes.

Mr. DELLENBACK. Did they, not you but they, make any predictions as to what was going to happen?

Mr. HARRISON. Yes sir. The predictions ranged from chaos to a serious problem. Putting it at its mildest, all of the people questioned felt the difficulty in obtaining loans would work a hardship—and I am talking now about this coming fall—on many students and their families.

Mr. DELLENBACK. Bob?

Mr. ANDRINGA. If by predicting you mean will the student end up in the college of his choice in September? It is very difficult to tell because the financial aid officers now see only the front end of the pipeline. The application takes something like 6 to 8 weeks to process. Aid officers have not heard the results of that process yet and, indeed, one of the additional problems which I believe we pointed out was that in many cases the school never learns until well into the fall semester whether or not the student actually got the loan that the financial aid officer recommended.

Some lenders have procedures for notifying the schools and some do not.

Mr. O'Hara. Do we know if there is a relationship—of course there is a relationship, but do we know what the relationships are—I think your report suggests that as best you can tell from your rough survey, the number of approved loans is down about 40 percent?

Mr. Harrison. Yes, sir.

Mr. O'Hara. Is the number of applications—that is also down?

Mr. Harrison. Yes, sir.

Mr. O'Hara. Does anyone know by what amount, what percentage the number of applications is down?

Mr. Harrison. Well, applications—the number of kids coming in to loan officers, student aid officers and saying "Can I get some help," that is down but we don't know how much.

The number of applications actually filed and sent on, the number of people coming into the banks, those seemed to be down. I wouldn't want to quantify it, but it seemed to be down substantially, but not by the 40 percent cited.

In other words, there is a substantial attrition at each step of the process and when you get to the end of the process the banker saying "Okay, we will loan it," and putting in a figure there that the student finds meaningful, so that the student goes ahead and processes the loan—that is where you come to the 40 percent dropoff.

Mr. O'Hara. Do we know what the NDSLs and SEOGs—are those also down?

Mr. Harrison. Those allocations were just made a few weeks ago. The regulations haven't even gone out yet. The Congress did appropriate last year's figure.

Mr. O'Hara. Are enrollments going to be down?

Mr. Cross. In some cases.

Mr. Harrison. Apparently so, yes, sir.

Mr. Andringa. Applications for enrollments are down in some schools but they are also up in some schools. As for loan applications—in my notes I had down 10 percent in one place, 40 percent in another place. I believe it varies according to the information the student has.

In some cases the financial aid officer alerted students in advance, "This year the law has changed. You will have to fill out a CSS needs analysis form," and so forth. The student might opt not to apply.

In another school where they didn't have that information, they would apply and then be told they had to fill out the needs analysis, and there could be quite a difference because, as we learned, many students in many families, when it is put on the line that way, just opt not to try for a subsidized loan.

Mr. Dellenback. In the figures that were given, was there a breakdown between the Federal-insured program and the guaranteed agency?

Mr. Harrison. No.

Mr. **Dellenback**. Do you find much variation in those two or did you get into a discussion?

Mr. **Harrison**. Not really, no.

Mr. **Dellenback**. I have some indication that there is quite a difference between the two, that one is considerably more than the other. I wondered if your analysis had brought out any of that.

Mr. **Harrison**. No, sir.

Mr. **Dellenback**. May I ask, lastly, Mr. Chairman, at this stage, not what the predictions of the people with whom you talked were, but what recommendations, if any, they made? And, again, we are distinguishing between what you might feel at the moment because I think the Chair is right, we should stay away from that for now, but did you get a consensus of recommendation? Did you find that recommendations at the beginning of a conference might be different than the recommendations at the end of a conference? Is there any input that you can make reaching across the breadth of these meetings on these points?

Mr. **Harrison**. Well, sir, subject to your wishes, I would like—I would like to defer even that. We are going to be talking as soon as you discharge us to the people who are here, and I think they are going to be making the same recommendations we have heard out there in the field.

Mr. **Dellenback**. My feeling on that is this, Jim, basically we are not asking for staff recommendations. We make that very clear. We recognize that you have already indicated that the group was not representative on a scientific basis, these might have been some strengths and weaknesses and some overrepresentations and some underrepresentations, and I am not saying that this is necessarily wrong, but I wondered whether or not from the six of you, for we have staff in whom we have a lot of confidence, if you bring back a picture, not from those who are going to testify later today, but from those whom you talked to out there where you had the benefit of dialog before the recommendations were done?

Mr. **O'Hara**. To put it this way, what were some of the suggestions made to you by these people? All right?

Mr. **Dellenback**. Fine. Was there anything like consensus?

Mr. **Harrison**. My colleague from the minority staff has volunteered to leadoff on that.

Mr. **Andringa**. Contrary to what we might have expected, coming back with a unanimous view in terms of recommendations, I see in my notes from 4 visits perhaps 15 substantive recommendations that might be considered either by the Office of Education or by the committee somewhere down the road.

As an example, one of the largest lenders in one of the regions dropped out of the program for a few months because his claims were not paid by the Office of Education for 5 months. Now, from his point of view, if you could solve the problem of getting his claims paid faster, he would have stayed in the program according to his testimony. But that might not apply for a good number of other people. If you add all those kinds of recommendations together, many of them make a great deal of sense. But I think it would be misleading to the committee if we suggested that two or three recommendations consistently came through from both the lenders and the schools.

Mr. **Dellenback**. I had three points involved in my question. One was that which you have just now touched on, was there a consistency of recommendation, and you have indicated at the moment that that is not so.

Second, was there something in the way of immediacy of recommendation? This I was wondering about because that is part of what we are facing as a subcommittee and as a Congress, should something be done immediately on this particular question.

Those would be the two that I jump at particularly. Particularly, oversimplifying, was there a consensus as to whether the Congress should legislate immediately, was there a consensus that it would do more harm than good, or was there complete ambivilence on that?

Mr. **Andringa**. I found it very interesting that many individuals viewed a change in the law, most of the time mentioning the so-called 15–15 proposal, as helpful.

But when we dug deeper into the why, it was my own conclusion that for many individuals it was to relieve them of administrative burdens, the possibility of not getting their applications processed and so forth—rather than proposing a change as sound public policy. And I put in my summary that I felt at least 80 percent of the people we talked with agreed philosophically with the needs test. But while people can agree with something philosophically, they are more concerned, I think naturally, with their immediate problems. Their immediate problems could be solved, many told us, by changing the law.

Mr. **Harrison**. Since we have opened this door, let me add to that. The results weren't the same in each meeting. There were some regional offices where there was great consensus on immediacy, on a legislative solution, on specifically the so-called 15–15 proposal.

At one regional meeting the group insisted that we take a vote, and I said, "Well, you know, you can vote all you want to. We haven't got any power anyway," but they insisted that we take it and report it to you.

Mr. **Dellenback**. Don't be too modest so far as your power is concerned. [Laughter.]

Mr. **O'Hara**. How did the vote come out?

Mr. **Harrison**. 17 to 4.

Mr. **O'Hara**. 17 to 4?

Mr. **Harrison**. 17 people were in favor of the 15–15 proposal.

Bob will tell you. I put the question to them in as skewed a way as I possibly could. I said:

> Assuming it takes weeks to legislate, assuming it takes weeks for the Office of Education to tell you what the law means, assuming it takes weeks for the Government Printing Office to print up the new forms, and assuming the banks don't make any loans in all this time, do you want us to enact this legislation.

Now, there were other offices where there was much less consensus on the subject. There was one office, indeed, where there was vast agreement that the needs test was a good thing, if you could just simply get a little relaxation from OE on it.

So the thing varied with geography and with time. The longer we were out on the road the more pronounced the positions became.

Mr. O'HARA. What would you add?

Mr. CABLE. All I would say is that in terms of consistency I would argue very strongly that there was none. I had comments made to me, "Don't help us out of our problem again, please." [Laughter.]

Mr. CABLE. Very seriously made. "The worst thing you could possibly do is get in this thing again and get us another August like we had," and to the extreme that Jim was talking about, you know, "Legislate tomorrow, do something tomorrow. We can't live unless you do it that way."

Mr. CROSS. I would say that of the people we talked to, as many said, "Don't do anything now" as said, "Do something now."

Mr. DELLENBACK. Mr. Chairman, part of the reason for my asking that question was to get it out in the open so we can get any reactions from those that will testify afterwards, so we can get any input they want to make. I didn't mean to chase the minutia.

Mr. O'HARA. It is not chasing minutia.

Mr. DELLENBACK. Dr. Andringa indicated, for example, that he has 15 recommendations. We don't need to go through all of those and try to make evaluations, but at least this broad sweep, it seems to me, was important to get out on the table.

Mr. O'HARA. I think so, too. I think it has been helpful.

Mr. Huber?

Mr. HUBER. I have a couple of questions.

Who made up the lenders? What kind of people were they?

Mr. HARRISON. Mostly commercial banks.

Mr. HUBER. What kind of people from commercial banks?

Mr. HARRISON. The student lending officers.

Mr. HUBER. What is a student lending officer? Is he a trainee in the bank or is he a vice president of the bank?

Mr. HARRISON. I gathered they were rather below the top level. They were people there who deal with the students day to day, people at the front desk.

Mr. O'HARA. Would you say they are middle level?

Mr. HARRISON. Middle level, yes. At least in one place we had a couple of people, a couple of people representing substantial banks to whom we directed questions and their answer was "I am sorry, I will have to go back and ask my superior."

Mr. HUBER. I just wondered what sort of management level you were dealing with.

Mr. HARRISON. I think the Bank of America had a high ranking spokesman, and Wells Fargo.

Mr. HUBER. Generally speaking they were pretty far down?

Mr. HARRISON. Middle level, yes, sir.

Mr. HUBER. What about your financial aid officers? What were their qualifications?

Mr. HARRISON. Well, these were almost in every case the chief student aid officer at the institution.

Mr. HUBER. What do you have to be, to be the chief student aid officer?

Mr. HARRISON. That seems to vary. In some institutions it is a job for a very junior staff or faculty member. In others it is a highly professionalized and permanent job. There is a 35 percent turnover from year to year.

I didn't, incidentally, say that in criticism of the student aid officers. I think it may imply some criticism of how the institutions as a whole perceive the importance of these programs. But there was a wide variance. Most of the officers seemed to be familiar with the program, familiar with the law, familiar with all the various student aid programs. There were none that we met who we thought were really incompetent to make analyses, and none of them seemed to need further advice. They were able to speak their minds to the point.

But a lot of them were overworked, and many of them had other responsibilities besides being a student aid officer.

Mr. HUBER. You gave an instance where somebody—a computer rung up $207, and they said, "What can I do with that for education, for my loan?" You mentioned that, $207 or something like that. What would happen in that kind of a case, when he comes back and objects? What happens then?

Mr. HARRISON. Apparently if he doesn't come back and object nothing happens in most cases. That $207 at the bottom of the form, is sent over to the bank, the banker looks at it, nods, puts $207 down and says, "That is the amount of loan we will approve."

If the student goes back and complains, in some places I suppose the aid officer from what we were told will look at him and say, "Kid, I have 4,000 other applicants and they are all telling me the same thing. Go write your Congressman." In some institutions they will work it over. The squeaky wheel theory works at some academic institutions, and some lending institutions.

There was no general pattern beyond a great reluctance on the part of the aid officers and the lenders to depart from the figures that somebody else had put on the form.

Mr. GAUL. May I add to that?

I would add that the banker nods with a great deal of confusion, because he is unfamiliar with how the student aid officer has assessed need. This is another area where there is a great deal of confusion between lenders and the aid officers.

Mr. ANDRINGA. And I think it is also important, Mr. Huber, to know that if the recommendation for a subsidized loan was $207, in the law there is an assumption that if the student wanted to he could get in addition to that, say a $1,000 in an unsubsidized loan.

Mr. HARRISON. If he could find a lender who would make one.

Mr. ANDRINGA. As we have reported, I remember only one lender who would do that, of those we talked to. So the lender is faced with this decision: "I can give you the $207 subsidized loan and that will be it."

The student says, "But I don't think I can even enroll or attend until I have $1,000."

So the lender says, "Well, I would be willing to give you an unsubsidized loan of $1,000, but not the subsidized loan," which puts him in the dilemma of denying, in effect, a Government subsidy for $207 in order to give the student what the student feels he really has to have.

Mr. Harrison. And in addition to that, sir, we found a great many banks who said, "We just don't want to have anything to do with unsubsidized loans. We will grant subsidized loans, but the rest, forget it."

Mr. O'Hara. Let me ask one question, Bob, and then we will break. I'm wondering how many of these problems that you have described to us existed prior to the change in the law? In other words——

Mr. Harrison. The unsubsidized loan problem certainly existed prior to the change in the law.

Mr. O'Hara. All right. There's one. In other words, prior to the change in the law we had the possibility of an unsubsidized loan and it was never made use of then?

Mr. Harrison. Very seldom.

Mr. O'Hara. Very seldom?

Mr. Harrison. Yes.

Mr. O'Hara. While we go to this quorum maybe you fellows can sort that out a little bit among yourselves and if you can reach some consensus, tell us when we get back, which of the problems you have described are substantially as they were prior to the change in the law, which ones are new problems, and which ones have become substantially worse.

Mr. Dellenback. Before we take the second lap in the O'Hara physical fitness course, who will be the next block of witnesses?

Mr. O'Hara. All right. Immediately after the staff gives us the answer to that question, we are going to put on the representatives of the several organizations—if I can find my sheet here I will be able to tell you who—here we are. Mr. Don Payton, who is president of the National Council of Higher Educational Loan Programs; Mr. Edward McCabe, of the Student Loan Marketing Association, who is accompanied by counsel; a representative of the American Bankers Association; a representative of the National Association of Student Financial Aid Administrators; and the Commissioner of Education.

So we are going to have them comment and give us their thoughts on what we can do with the problem.

[Recess.]

Mr. O'Hara. The subcommittee will come to order.

Has the staff reached a consensus on an answer to my questions which had to do with which of the problems were more or less endemic with the program since its inception, and which of them have been newly created by last year's amendments, and thereafter?

Mr. Harrison. Well, I will try. We have been standing here in a corner trying to come to a consensus.

Obviously the needs test is related to the 1972 amendments. That is a major problem. And everything that stems from it, the time problem, lender confusion, and the relationship to the institutional-based programs. All of that stems from the amendments, and the additional paperwork stemming from the implementation of the amendments, the problem with a program manual or its nonexistence at the moment, the absence of guidance, and so on.

Those seem to be the new problems which are clearly related to the legislation or its administration. There are some problems which have persisted over the years:

The lack of unsubsidized loans, the unwillingness of bankers to go into split loans, the bank policies denying loans to freshmen or to persons without customer relationships, and the personnel problems, both in the banks and in the institutions, personnel—simply the massive volume of work presented to both.

There are some new problems which are listed here as perhaps not program-related.

Looming very large, of course, is the enormous inflation in the prime rate. The 7 percent interest, plus a special allowance which the Government will pay now, while it may be technically keeping pace with the prime rate does not seem to be very much of an incentive to bankers.

The lateness of the funding and regulations for the institutional-based programs is not related to the legislation affecting the guaranteed loan program, but it is a relevant fact.

Finally, this strong impression we all had of less pressure to attend school, less interest in attending school, the growing drop in the value many Americans are placing on postsecondary education, I don't know what that is related to, Mr. Chairman.

Mr. O'Hara. Thank you very much, Jim. We appreciate that analysis, and I very much appreciate the efforts of the staff to assist us in finding the facts which involved a good deal of inconvenience, I know, to all of you.

I would also like to begin by thanking our panel of witnesses for their willingness to participate in this experimental—and we hope useful—approach to the hearing process.

I would like to first indicate that the statements of each of the groups represented here will be entered in the record of the hearing immediately following these remarks of mine.

Before we proceed I would like to ask the witnesses to identify themselves, beginning with Lois Rice, and the organizations with which they are affiliated, and go around the table.

Ms. Rice. I am Lois Rice of the College Entrance Examination Board.

Mr. Jaynes. My name is Robert Jaynes. I am with the American Bankers Association.

Mr. Zuver. I'm Charles Zuver of the American Bankers Association.

Mr. Evans. Jay Evans, from Pennsylvania, with the National Council of Higher Education Loan Programs.

Mr. Payton. Don Payton, gentlemen, president of the National Council. Mr. Evans is president-elect, and Ms. Wennerdahl is director of the State and Federal Program Relations for the Council.

Mr. Bayer. I'm David Bayer, from the Office of Education, Division of Insured Loans.

Mr. Muirhead. I'm Peter Muirhead, Deputy Commissioner for Higher Education from the Office of Education.

Ms. Edwards. Eunice Edwards, president of the National Association of Student Financial Aid Administrators.

Mr. Martin. Dallas Martin, president-elect of the National Association of Student Financial Aid Administrators.

Mr. Purdy. Alan Purdy, State and Federal Program Relations for the Association and the University of Missouri.

Mr. McCabe. I'm Edward McCabe, the chairman of the Student Loan Marketing Association. With me is Tim Greene, who is general counsel for the corporation.

Mr. O'Hara. Mr. Muirhead and Mr. Bayer, I would like to start off by asking—first, let the statements of all those here who have submitted statements be entered at an appropriate point in the record.

[Statements of Mr. Ottina, Mrs. Edwards and Mr. Payton follow:]

PREPARED STATEMENT BY HON. JOHN OTTINA, COMMISSIONER, U.S. OFFICE OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Mr. Chairman and members of the subcommittee, I am happy to appear before you today to discuss the status of the Guaranteed Loan Program. Perhaps first a little background information might be in order.

The Education Amendments of 1972 were signed into law on June 23, 1972, with an effective date of July 1, 1972. The immediate effect on the Guaranteed Student Loan Program was a shut-down of the program on July 1 which continued until the issuance of new regulations for the implementation of key parts of the Amendments.

The program renewed operations with the July 18 publication of revised regulations to implement legislation affecting eligibility requirements for Federal interest benefits.

The major provision of the regulation was the new responsibility of educational institutions to compute expected family contributions and to *recommend* a loan to the lender. The necessary calculations and the recommendation were to be made on a supplemental application form. If a loan in any amount was recommended, the Federal interest benefits would be paid on the entire amount approved by the lender. Amounts in excess of the recommended loan amount would be warranted only in exceptional cases as justified by the lender. If the school made no recommendation for a loan (zero or a negative figure), the loan was not eligible for any Federal interest subsidy.

Implementation of the new provisions during the height of the normal lending season had a significant impact on the program. The new procedures threw the progrom into general confusion. Lenders and schools simply were not able to process millions of applications under a completely new set of groundrules in the limited time available. In those few cases where schools were able to process applications, the formula for determining the recommended loan amount produced results which made relatively few borrowers eligible for Federal interest benefits.

As a result, Office of Education, State Guarantee Agencies, and your offices were flooded with mail and telegrams from students, families, lenders and schools. Volume of loans in July and August dropped close to 60 percent from the previous summer. The President moved to provide relief by sending the Congress a request for emergency legislation; and the Congress responded within forty-eight hours with a Joint Resolution which set back the effective date of certain statutory provisions to March 1, 1973.

The regulations published on August 22, 1972, restored the pre-existing rules of the program, and new loan volume increased over the prior year in every month from September through February of this year.

The period from late August through late October was devoted to developing revised regulations which would address the problems with the original interpretation of the Amendments. An interagency policy group was established and interested organizations and persons outside the government were consulted. These efforts resulted in the October 28, 1972, publication of proposed rules affecting interest benefits eligibility.

Three major changes were made. First, the cost of education was to be determined by the educational institution and was expanded to include books and supplies, transportation costs and personal expenses. Second, the school was given flexibility to adjust the computed expected family contribution to a "realistic" amount. Finally, a lender could now make a subsidized loan in excess of that recommended by the school, provided the lender had some basis for determining that the school's recommendation was not realistic.

During January and February of this year, the Office of Education and State agency staffs conducted over 250 workshops. Lenders and schools throughout the country were briefed on the new procedures.

PROGRAM STATUS SINCE MARCH 1, 1973

The Guaranteed Loan Program has been operating under the new law for only four months. In about half the country, loans are guaranteed by State or private non-profit agencies. Loans are insured by the Federal Government in the rest of the country. More than 70 percent of the volume has been made under the federally insured program. The attached table summarizes the recent experience of both the federally insured program and the State and private agency guaranteed loan program. The combined March, April, May, and June volumes were down about 40 percent, as compared to the same period of last year. Dollar volume was off 37 percent, but the number of loans showed a 41 percent decline. The federally insured program dropped 28 percent in dollars and 36 percent in numbers during this period, as compared to a 51 percent and 52 percent decline in dollars and numbers in the State and private programs. The lesser decline in the federal program reflects sustained lending to vocational students at about the same level as under the preexisting rules. A conservative estimate of at least 55 percent of this federally insured volume has been made to proprietary school students whereas less than 10 percent of the guarantee agency loans are made to such students.

The proprietary school students is in effect assured of receiving a loan as a result of the school being a lender itself or having effective banking relationships.

The extent of the decline in lender participation is even greater than these figures indicate, since an estimated 35 per cent of the new federally insured loan activity is accounted for by three large vocational schools functioning as lenders. In addition, in Florida, New Mexico, Oklahoma, and Texas, the State is the largest lender, but with loans primarily limited to students attending college within the State.

At first blush, the record of the first four months is disappointing. The major changes in concepts incorporated into the October 28th Proposed Rules and into the final Regulation were expected to have a positive influence in the total process. While the expanded "cost of education" definition has alleviated the problem originally experienced in that area, the other two key changes have not been significant in providing the flexibility envisioned.

Analysis of a sample of 9,139 supplementary applications processed shows that financial aid officers have decreased the expected family contribution for 13.6 percent of the students applying for interest benefits. Similarly, lenders have made subsidized loans exceeding the school's recommendation, as permitted under the third major procedural change, to 8.6 percent of the student borrowers.

SOME REASONS FOR RECENT DECLINE

Ideally, in order fully to assess "what is happening," information is needed on students who have chosen not to apply and on loans held up by schools and/or turned down by lenders. In the absence of such data, meetings have been held with Office of Education and State agency officials to discuss the total problem and to get the best judgment of these staff members as to what is taking place. Some concensus appears on the following varied causes.

1. During the four-month period in question, institutions were uncertain about Federal allocations under the college-based student financial air programs. In addition, the funding level for the Basic Grant Program had not been established, and the details of its operation were not widely available to institutions and students. Financial aid officers were unable to determine a student's need for a Guaranteed Loan in the absence of information concerning the other portion of a student's financial aid package.

2. Some students are simply not applying for a Guaranteed Loan because the needs analysis requires disclosure of family income and asset data.

3. Lenders seem to be equating the recommended loan amount, which is tied to eligibility for Federal interest benefits, with the student's need for

a loan. Students with a zero or low loan recommendation generally are not getting loans, even on an unsubsidized basis.

4. Some lenders are feeling the liquidity squeeze and are waiting to see how the newly-established Student Loan Marketing Association ("Sallie Mae") will operate before increasing the size of their student loan portfolios.

5. Lenders may feel the recent and sharp increases in interest rates have made the seven percent Guaranteed Loan less attractive, even with the special allowance. The special allowance rate is adjusted quarterly to reflect current monetary conditions. The rate for the quarter ending June 30 has been approved for 1¾ percent. This was an increase of ¾ percent over the rate for the previous quarter and reflects the highest rate since June 30, 1970.

OUTLOOK

The next two months are critical for the Guaranteed Student Loan Program. The renewed commitment of the Nation's lending community is clearly needed to assure continued program expansion and the availability of a source of funds for millions of postsecondary students. In order to accomplish this, the Department of Health, Education, and Welfare will shortly be launching a major national promotional campaign. Yesterday, special letters were mailed to all eligible schools and participating lenders in the country in an effort to insure that they are fully aware with their options under this program. Lenders were also advised of the July 16, 1973 announcement by the Student Loan Marketing Association of plans to offer 700,000 shares of common stock, raising $105 million for the initial capitalization of Sallie Mae.

Officials of "Sallie Mae" have indicated that the new secondary market will be operating in at least a modest fashion by late summer. Even limited purchasing or warehousing activity should have some effect in stimulating new loan volume in time for this upcoming school year.

Preliminary results of an Office of Education telephone survey conducted in May indicate that about fifteen percent of the lenders may be willing to make relatively more non-subsidized loans in the future. With fewer students qualifying for Federal interest benefits under the needs analysis, a shift is needed in lender policy. These non-subsidized loans have accounted for about 5 percent of all guaranteed student loans to date.

Survey results indicate that about 57 percent of lenders make both subsidized and unsubsidized loans. Handling costs were cited as the major reason for not making non-subsidized loans. The tendency to make both types of loans decreases with the level of participation. For example, all lenders with 10,000 or more loans made non-subsidized loans, but only 55 percent of the lenders with 500 or less loans make loans to students not eligible for Federal interest benefits. Lenders in the 500-or-less range represent 92 percent of the lenders in the total program and hold an estimated 30 percent of the loans made. Many students who do not qualify for Federal interest benefits will therefore experience difficulty in obtaining a loan unless special efforts are made to encourage the smaller lenders to make non-subsidized loans.

About 30 percent of the lenders anticipate a change in the number of non-subsidized loans they are now making. Some indicated that the number would decline because of the additional costs and paperwork involved and a policy of loaning the amount recommended by the school. About half of these lenders felt that some increase would probably take place, partly as a result of the new regulations and the desire to accommodate upper income customers. Lenders generally were unable to predict what overall effect the new legislation will eventually have on their particular operation.

The general posture of the Office of Education and the various State agencies is to provide all possible assistance to lenders and schools. The past three months have provided the necessary time for the new regulations to "take hold" in time for the summer period. Now the necessary lending industry commitment, the implementation of "Sallie Mae," and a liberal lender attitude toward non-subsidized loans are the essential elements for assuring success of the program under the new legislation.

GUARANTEED STUDENT LOAN PROGRAM LOAN VOLUME COMPARISON, MARCH, APRIL, MAY, JUNE 1972-73

	Federal insured loans		State and private guaranteed loans	
	Number	Dollars	Number	Dollars
March:				
1972	42,793	39,775,782	15,799	14,577,197
1973	23,794	23,588,160	8,378	8,012,356
Loss	18,999	16,187,622	7,421	6,564,841
Percent	44	41	47	45
April:				
1972	36,532	33,655,580	9,798	9,590,466
1973	17,269	18,778,843	5,270	5,215,918
Loss	19,263	14,876,737	4,528	4,374,548
Percent	53	44	46	46
May:				
1972	48,771	44,328,177	17,902	19,305,855
1973	33,514	34,751,833	9,892	10,630,044
Loss	15,257	9,576,344	8,010	8,675,811
Percent	31	22	45	45
June:				
1972	61,809	61,373,171	57,400	68,370,677
1973	47,350	52,200,864	25,329	30,706,502
Loss	14,459	9,172,307	32,071	37,664,175
Percent	23	15	56	55
March to June 1972	189,905	179,132,710	100,899	111,844,195
March to June 1973	121,927	129,319,700	48,869	54,564,820
Four months loss	67,978	49,813,010	52,030	57,279,375
Percent	36	28	52	51

PERCENT LOSS COMBINED PROGRAMS

	Number	Dollars
March	45	42
April	51	45
May	35	29
June	39	36
4 months	41	37

EXHIBIT A.—LOANS GUARANTEED BY STATE AND PRIVATE GUARANTEE AGENCIES DURING THE MONTHS OF MARCH, APRIL, MAY, JUNE, AND JULY 1971, 1972, AND 1973[1]

	1971			1973			
	March through June	July only	1972, March through June[2]	March through June	Compared to 1972 (percent)	July only[3]	Compared to 1971 (percent)
Arkansas	$84,858	$873,138	$84,720	$281,306	+232	$345,411	−60
Connecticut	6,942,315	5,800,857	8,773,099	1,834,907	−79	4,868,397	−16
Georgia	2,422,473	2,442,246	3,607,709	1,304,216	−64	862,026	−65
Illinois	6,577,201	5,334,229	7,944,001	2,047,080	−74	2,306,250	−57
Louisiana	193,889	1,207,205	74,397	84,964	−14	139,258	−99
Maryland	1,042,091	531,043	1,687,758	1,317,520	−22	915,979	+73
Massachusetts	5,357,424	3,975,240	6,975,384	4,659,929	−33	3,199,944	−20
Michigan	2,694,133	1,538,411	4,100,574	2,144,027	−48	1,220,641	−21
New Hampshire	139,630	289,360	177,610	133,280	−25	83,647	−71
New Jersey	9,621,152	10,643,195	13,360,336	5,227,487	−61	5,983,470	−44
New York	24,911,000	33,298,000	16,132,000	17,283,000	+7	16,200,000	−51
North Carolina	1,841,250	1,352,450	2,657,850	699,192	−74	1,018,657	−25
Ohio	3,734,711	3,010,925	4,827,119	2,403,767	−50	1,885,500	−37
Oklahoma	283,307	906,551	684,804	555,745	−19	244,581	−73
Pennsylvania	31,008,812	24,340,747	28,251,611	8,138,673	−71	8,250,000	−66
Rhode Island	207,695	1,148,250	281,206	523,977	+86	453,667	−61
Tennessee	1,190,170	586,385	1,430,665	744,990	−48	381,829	−35
Vermont	41,950	435,075	427,199	54,440	−87	488,686	+12
Virginia	358,715	244,610	549,172	389,000	−29	218,250	−11
Wisconsin	1,624,534	1,128,158	2,107,510	1,195,472	−43	825,000	−27
USAF	4,744,498	4,558,226	3,920,362	3,149,639	−20	3,000,000	−34
Total amount	105,021,808	103,644,301	108,055,086	54,172,611	−50	52,891,193	−49
Combined 5 months total	$208,666,109			$107,063,804			
Totals excluding New York	80,110,808	70,346,301	91,923,086	36,889,611	−60	36,691,193	−48
Total number of loans	99,048	90,672	97,640	47,900	−51	41,241	−55
Combined 5 months total	189,720			89,141			−53
Totals excluding New York	74,711	61,869	81,856	32,635	−60	28,941	−53
Average loan amount	1,099.86			1135.92 (+$36.06 over 1971)		1201.06 (+$65.14 over 1972)	

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[1] Agencies not included: Delaware, Maine, Nevada, Oregon, West Virginia, and District of Columbia, because July 1973 statistics not yet available.

[2] Loans guaranteed during July 1972 omitted due to status of program at that time.

[3] July 1973 figures reported by guarantee agencies through July 20, 1973 have been increased by 50 percent so as project an anticipated volume for the full month of July 1973.

EXHIBIT B.—LOANS GUARANTEED BY STATE AND PRIVATE GUARANTEE AGENCIES DURING THE MONTHS OF MARCH, APRIL, MAY, JUNE AND JULY FOR THE YEARS 1968 THROUGH 1973[1]

	1968[2]	1969[2]	1970[2]	1971[3]	1972[3]	1973[3]
Arkansas	$406,076	$677,153	$754,592	$957,996	$117,195	$626,717
Connecticut	9,421,650	9,617,825	13,940,821	12,743,172	11,986,713	6,703,304
Georgia	2,965,055	3,694,253	4,023,260	4,864,719	3,607,709	2,166,242
Illinois	10,845,634	11,947,293	11,578,246	11,911,430	8,040,820	4,353,330
Louisiana	191,768	616,254	786,069	1,401,094	672,252	224,222
Maryland	971,319	1,342,979	1,473,197	1,573,134	1,708,808	2,233,499
Massachusetts	5,157,032	6,754,352	8,439,561	9,332,664	6,975,384	7,859,873
Michigan	1,318,501	2,441,069	2,659,064	4,232,544	4,824,354	3,364,668
New Hampshire	233,315	312,355	381,676	428,990	322,880	216,927
New Jersey	7,014,381	16,159,905	18,828,969	20,264,347	13,360,336	11,210,957
New York	41,168,459	56,042,876	52,603,339	58,209,000	40,495,000	33,483,000
North Carolina	109,019	174,933	120,173	3,193,700	4,763,550	1,717,849
Ohio	2,681,555	5,369,562	5,489,867	6,745,636	4,927,666	4,289,267
Oklahoma	90,140	425,898	940,630	1,189,858	1,002,404	800,326
Pennsylvania	3,614,312	15,539,602	24,290,242	55,349,559	35,699,773	16,388,673
Rhode Island	488,535	1,085,682	1,461,776	1,355,945	855,925	977,644
Tennessee	1,194,322	1,433,561	1,482,684	1,776,555	1,437,643	1,126,819
Vermont	165,351	193,220	181,730	477,025	427,199	543,126
Virginia	944,962	744,653	568,412	603,325	651,281	607,250
Wisconsin	1,432,968	1,764,084	3,579,629	2,752,692	2,582,905	2,020,472
USAF	4,678,617	3,683,788	3,464,661	9,302,724	5,697,577	6,149,639
Total	95,091,971	140,061,297	157,048,598	208,666,109	150,157,374	107,063,840

[1] Figures for the following guarantee agencies have been excluded, for comparison purposes, since their statistics for July 1973 are not yet available: Delaware, Maine, Nevada, Oregon, West Virginia, and District of Columbia.

[2] Figures furnished by the Office of Education.

[3] Figures furnished by guarantee agencies.

PREPARED STATEMENT OF MRS. EUNICE L. EDWARDS, PRESIDENT, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman and members of the subcommittee; It is always a privilege for members of the National Association of Student Financial Aid Administrators to appear before the House Special Subcommittee on Education. We are particularly pleased to be with you today and to have the opportunity to provide observations about the current status of the insured student loan program from the perspective of the institutional financial aid administrator.

The Education Amendments of 1972 established new regulations for the Guaranteed Student Loan Program which were officially implemented on March 1, 1973.

During the past four months we have been operating under these new regulations; however, we are very concerned about the numbers of our students who have been unable to obtain these loans during this period.

As far as we can tell, most of the decrease in the present loan volume insured to date is attributable to fewer loan approvals and approvals of smaller loans.

The reasons for this action are many and varied. Some of the causes identified by the financial aid community are these:

1. *The number of applications submitted to the institution for initial processing.*—We have surveyed about fifty colleges since being invited to provide testimony. Applications being submitted by students appear to be about constant with last year at this time. Few schools report any significant increase in applications and several report a decline. Any decrease might be attributed to two factors.

(a) Insured loans are frequently generated by students failing to obtain sufficient financial aid from their institution. Because of the late appropriation and allotment of federal funds to institutions for NDSL, CW-SP and SEOG, and the absence of regulations governing these programs, many schools have not yet advised their applicants of the aid available to them. Normally this would have been done before now, and those failing to receive adequate funds would have already filed an insured loan application.

(b) There is some indication that a small percentage of students expressing interest in obtaining an insured loan are not following through upon discovering that the interest subsidy is now contingent upon the submission of a financial statement. It would appear that some families are choosing not to apply rather than reveal their financial status or pay the interest themselves.

2. *The number of applications actually processed by the institution.*—There is a small backlog of applications on hand in some of the financial aid offices. However, this backlog is less than might be expected, considering the substantial increase in time required to process each form because of the need analysis required for the interest subsidy. Most of the applications are awaiting receipt of information to do the need analysis, since the basic insured student loan application form does not collect information needed for this purpose, and supplemental data must be requested.

3. *The number and volume of applications approved by the lender:* As far as we can tell, the reasons for the decrease in the number of loans and their reduction in dollar volume by the lenders are many and varied. Some of the causes identified by the financial aid community are these:

(a) There is obvious confusion in some of the lending community about the present procedure. This confusion stems from a lack of understanding of need analysis and regulations pertaining to the authority of the lender to change the amount of the school's recommendation. Because lenders do not understand the acceptable basis for changing a school's recommendation or the documentation required, they are infrequently doing it. Unfortunately, there is not nearly enough communication between the lender and the financial aid officer.

(b) There is apparent misunderstanding on the part of some of the lenders about the distinction between demonstrating eligibility for the interest subsidy and the provision of the state or federal guarantee. Lenders frequently advise students that they *cannot make the loan* because of the school's —0— recommendation for interest payment eligibility. Some of this may be unawareness of the facts, but some seems certain to be an excuse for not participating.

(c) There is almost no lender interest in unsubsidized loans, in part or in full. One reason given is that the rate of return is unsufficient to cover the additional costs of collecting interest from the borrower. Another reason is that the system of interest collection does not conform to the normal banking procedures and therefore it becomes one additional operation that adds to the cost.

(d) There are several other limitations being used by certain lenders to limit the number of loans. Among them are:

(1) No loans to freshmen
(2) Required account relationship of student and/or parent
(3) Residence in lender's community for varied length of time
(4) No loans to older students
(5) Loan limits under legal maximums: $500 to junior and community college students, $1500 to undergraduates and $2500 only to graduate and law students

These restrictions have clearly been on the increase as the money market has tightened up over the past few months. Although there is no consistent pattern, we receive reports of lenders reducing their volume or discontinuing participation altogether, for a variety of reasons. Some lenders say it is a problem of liquidity, others say not; some say they cannot justify the cost incurred in administration, others report they are making a fair return; some blame it on the paperwork involved, others say there are more pressing needs in the community.

When we look at the history of the development of the federal student aid programs, we see the National Defense Loans, College Work Study and Educational Opportunity Grant programs, all of which were designed to aid the student from low income families. The enacting laws specified that there be demonstrated financial need in order for the students to qualify for these benefits. With the operation of these three programs based upon standardized needs tests, it soon became generally apparent that families in the middle and lower-middle income ranges were not being reached. Yet in this period of very rapidly increasing college costs, there was a very real financial pinch on the middle income families. This was especially true in the case of large families and in situations where more than one child was in college at the same time.

The Federally Insured Student Loan program was therefore enacted to provide a source of financial relief for those families above the poverty level but below the adjusted $15,000 annual income bracket. There was no doubt that it was the intent of Congress that families at this economic level be assisted. The $15,000 figure was a fairly generous income level when it was first enacted. In fact it was felt that an interest subsidized loan in some cases might not be justified and that this rule permitted some students to abuse the privilege. Suggestions were made that the program be tightened up a bit, and spokesmen of our organization have so testified before this subcommittee in former years. We recommended a needs test that would screen the applicants but suggested that the test be somewhat less demanding on the parents' pocketbook than those systems then in use. It seemed logical that the economic level to qualify for an insured loan could be higher than that required for a grant or work program.

The Education Amendments of 1972 provided for a needs test. However, the language of the law left some legal dilemmas as to just how stringent the needs test should be. Sharp inflation has escalated family living costs at the same time as the new restricted rules for the loan program have gone into effect.

We believe that Congress still intended that there be a reasonable source of credit available for middle income families. The directives of the Office of Education would also appear to agree that enough flexibility be exercised by the financial aid officer to provide this credit. However, in actual practice most financial aid officers are adhering quite closely to a rather stringent need for fear of getting caught by some future audit and being accused of over awarding financial aid. The letter being sent to financial aid officers by the Office of Education this week is intended to relieve this apprehension and to let the program reach more students. We think these new instructions will help some, but we are still left without an interpretation of the words "reasonable documentation." We wonder if the auditor will agree that our judgment was reasonable. For example, nowhere in the instructions is there any reference to permitting an insured loan to replace any portion of the parents' expected contribution. To us this might be reasonable, but should the auditor disagree, then our institution would be in trouble.

It has been suggested that a legislative change reinstating the eligibility for an interest benefit loan not to exceed $1500 for those adjusted family incomes under $15,000 would answer our current problems. We believe that this would provide temporary relief and permit the program to move ahead, assisting thousands of additional students who would be left out under the current pattern of operation.

However, as pointed out above, there are several identifiable reasons for a credit crunch. Therefore, we would hasten to urge that during the coming months, long range program improvements be considered and enacted to make the insured loan program more practicable and workable from the standpoint of the lender in order to keep an adequate credit supply available to the students. We realize that certain financial limits will need to be maintained to keep the federal budget costs within reasonable dimensions. Nevertheless, of particular concern to us is the fact that in its deliberations, the Congress had considered and consented to providing and administrative allowance of one per cent of the amount of the loan to partially reimburse the educational institution for administrative costs. Unfortunately, this provision was omitted in the rewriting of the bill. We need this to be made a part of the program. One of the key facts observed by congressional staff in reviewing the operation of insured loans is that financial aid people and lenders don't communicate frequently enough. This is true and the situation could be improved if the aid offices were more adequately staffed to carry the additional work load of insured loans and the added details of the new Basic Educational Opportunity Grant program.

This concludes our testimony; however, we want you to know that the financial aid community stands ready to help with the needed solutions in any way we can.

Prepared Statement of Donald Payton, President of the National Council of Higher Education Loan Programs and Executive Director of the Georgia Higher Education Assistance Corp.

Mr. Chairman, and members of the subcommittee, It is an honor for the National Council of Higher Education Loan Programs to again appear before the House Special Subcommittee on Education.

The National Council is composed of the chief executive officers of the twenty-seven state and private guarantee agencies which administer the guaranteed student loan program in their respective states.

We are here today, at your invitation, to discuss the growing crisis in the student loan program brought about by the Education Amendments of 1972.

Prior to March 1, 1973, the amended effective date of the Education Amendments of 1972, children from families having an adjusted family income of less than $15,000 were eligible to obtain an interest-subsidized guaranteed student loan not in excess of $1500 per academic year for postsecondary education purposes. The effectiveness of the student loan program in providing to students financial access to postsecondary education and freedom of choice as between educational institutions is a well known and established fact.

While wrestling with the all-encompassing Education Amendments of 1972 last year, the Congress recognized that certain students, such as those attending private high cost institutions, did on occasion need an educational loan in excess of $1500, and that on occasion children from families having an income of $15,000 or more are in need of an educational loan as in the case of a family which has two or more children in college at the same time. The Congress wisely sought to meet the needs of such students by changing the law then in effect in such a manner as to make students eligible for a subsidized loan up to $2500 per academic year without regard to the level of family income, provided need for a loan in such amount was proven in the manner provided by the language in that law. However, in the process of amending the law in effect at that time, the financial need requirement set forth in the new law by the Congress was, whether intended or not, made applicable to all subsidized loans mare under the guaranteed student loan program after March 1 of this year. As a result, students from families having an adjusted family income of less than $15,000 are not now presumed to have need for a loan up to $1500 or for the difference between their costs of education and resources available exclusive of any computed parental contribution, whichever is less, as was the case in all prior years.

The stringent financial needs requirement now imposed upon all loans made under the student loan program was historically designed to apply primarily to gift aid programs as a rationing device or tool for the distribution of limited amounts of gift aid funds among the neediest of a large number of low and middle income applicants for such funds. The application of such a stringent financial need requirement upon the guaranteed student loan program has had a tragic adverse effect upon the program, upon students and their parents, and upon commercial lenders who are asked by Congress to make educational loans to students. Measures embodied in the new law purportedly designed to enable financial aid officers and commercial lenders to exercise some more liberalized degree of judgment in the making of a subsidized loan beyond the computed dictates of the stringent financial needs test are not working satisfactorily and, in our opinion, will work at very best only to a limited degree and then in an inequitable manner as between students.

Let's examine some of the facts and issues.

1. Student Loan Statistics Since March 1, 1973 Compared to Prior Years

In our testimony before the Senate Subcommittee on Education on June 22, 1973, the Council stated that during the months of March, April and May of this year compared to the same months of the last year the number of student loans guaranteed across the nation by state and private guarantee agencies and by the federal government declined by 43 percent.

The number of loans guaranteed by state and private guarantee agencies during the three month comparative period actually declined by 46% and the dollar amount of loans guaranteed by these agencies declined by 45 percent.

The situation worsened during June 1973, and has not improved during the month of July. Exhibit A attached hereto shows the following:

a. The amount of loans guaranteed by the agencies during June 1973 was 55% below the amounts of loans guaranteed during June 1972.

b. The amount of loans guaranteed during the four month period from March through June, 1973 was 50% below the amount of loans guaranteed during the same period last year.

c. For the same four month period, the amount of loans guaranteed by the agencies exclusive of the State of New York was 60% below the amount of loans guaranteed by the same agencies during the comparable period last year.

d. Although we were told last month not to worry about volume because many applications were in the pipeline and would show up in July, the volume for this month, July, 1973, determined as stated an Exhibit A, is 49% below the volume of loans processed two years ago, during July, 1971. This heightens our concern to an even greater degree. The July, 1973 volume cannot be readily compared to July, 1972 due to the status of the loan program during July, 1972.

In order to more accurately demonstrate for you this overall impact of the Education Amendments of 1972 upon the student loan program, the amount of loans guaranteed by the agencies during the five month period from March through July, 1973 has been compared with the amount of loans guaranteed during the same months of prior years all the way back to 1968. This comparison is shown in Exhibit B attached, and graphically illustrated on Exhibit C attached. You will note that for all practical purposes the student loan program, by virtue of the Education Amendments of 1972, has in effect been cut back to the 1968 level of operations, which represents the 1967-1968 academic school year period.

We find it hard to dispute or rationalize the foregoing statistics.

2. *Is There A Crisis In the Student Loan Program?*

Recently, we were told by a member of this Subcommittee's staff that we were the only group saying there is a crisis. We need to set the record straight on that matter, as well as get to the heart of the issue. We are claiming that thousands of middle income students are not going to get loans that they are counting on and which they need to continue their education. The foregoing statistics and our records show this to be true. But whether or not this constitutes a crisis can only be determined by each person's or organization's commitment to the middle income family and where these families stand in the various orders of priority. This is the issue which you face today. It is the central question which we feel that you must answer.

For many years our organization has been committed to middle income students and their need for assistance, as well as to low income students. We are so committed because the Congress mandated that our program be primarily for middle income students at the time it was inaugurated. We submit to you our premise that the effect of the Education Amendments of 1972 is to change this middle income program, however inadvertently, into a low income program. If our premise is valid, then we ask you, "It this the true intent of the Congress." We need to know. The public needs to know. We seek an answer from you.

So as to frame this issue, let us first address ourselves to the validity of our premise which is that the effect of the new law is to convert this middle income program into a low income program. This can be done by seeking the answers to three basic questions, namely:

1. What population group will qualify for a subsidized loan when school aid officers employ the same needs test that is used to determine eligibility of a student for an Educational Opportunity Grant or other federal aid targeted towards the most needy of students?

The answer to this question is self-evident. If the same needs test is used to determine eligibility of a student for a subsidized loan as is used to ration limited EOG funds to the neediest of students, and that is the case, then it becomes readily apparent that the middle income student is going to be eliminated in most every instance through the use of such tests. The only population group which will generally qualify for a subsidized loan under current law is the low income group.

2. How frequently will schools and commercial lending institutions adjust the results of the school needs test computations in order to enable a middle income student to obtain a subsidized loan?

We are being told by school aid officers that they are extremely reluctant to adjust the results of needs analysis computations for various reasons, particularly because of their fear of future rejection of their justification by HEW, GAO or other federal auditors. Some aid officers will refuse to consider making adjustments because of their uniquely personal conservative nature, or because of their particular feelings towards a certain group or class of students, or merely because they feel more comfortable and protected when standing behind a needs test computation. A few aid officers may on the otherhand be more than willing to make adjustments for most any reason. It must be remembered that aid officers in more than 8000 educational institutions are involved in making these subjective determinations. This knowledge of what they can and cannot do, and personal inclinations, will vary widely from person to person and from institution to institution. The result, under such circumstances, especially when considered in light of this loan program where the funds involved are not institutional funds, will vary widely and will result in inequities to many students. We are aware that schools always have had some limited freedom to adjust computed need when circumstances specifically warrent when awarding other or additional federal aid. But it should be remembered that in such cases the school is working within the confines of the targeted group which the program is intended to aid, and that such adjustment in those cases is not being made in order to shift aid from such a targeted group to a higher middle income group as would be the case if done in the student loan program.

The Administration would have you believe that certain administrative remedies can be employed and that the letter now being mailed to schools should relieve concerns of aid officers since the letter states that they have nothing to fear from future audits as long as their justification is "reasonable", a word which could be subject to vastly different interpretation by schools and auditors. There is nothing new in the letter now being mailed that has not been said before. In fact, the only concept remotely new is the use of the word "reasonable," which one school counselor has already claimed to be another new requirement.

Also, there is, in our opinion, another subtle message in this letter which we do not believe will be missed by the school aid officers. In this letter, the school aid officer is assured that he not withdraw any previously awarded aid from a student if a lender subsequently makes a subsidized loan in excess of the reported unmet need. Conspicuous by its absence is any assurance that the same protection will exist if the school should feel led to recommend a loan which exceeds the unmet need remaining after other federal aid has been awarded. Our point is that the letter infers that a school has no justification for feeling any freer to make more liberal adjustments for the guaranteed student loan program than they would for any other federal student aid program, thus targeting subsidized loans to the same group of students. Further, we are not without sympathy for the school aid officer who would even attempt to cope with the inevitable credibility problems inherent in trying to explain to students and parents two separate concepts of need—one for a National Direct Loan and another, more "realistic" one for a Guaranteed Student Loan.

Let us state at this point that the Administration cannot by phone, letter, memoranda, or bulletin to aid officers or lenders go beyond what is clearly provided in the law and duly promulgated regulations, and aid officers and lenders know this. Auditors will be guided only by provisions of law as set forth in the law and regulations, and aid officers and lenders know this too. Further, we feel that the second set of regulations promulgated already stretch the language of the federal law to the limit, and that no further, more liberal set of regulations can possibly be issued under the current law. Hence, we ask the Congress to amend the present federal law.

These are not the only problems schools tell us they are facing. We encourage you to ask the school aid officers if they have the time or staff to subjectively judge each of the thousands of applications which cross their desks. And, even if their loan volume would permit them to do so, on what basis would they feel comfortable justifying more than a few changes? To date, a little more than 10% of applications received by guarantee agencies show any adjustments being made by school counselors, and one must remember that a significant share of these are merely increasing the need, however slightly, on an application already demonstrating some need for a loan, as opposed to taking a computed "no need" application and adjusting it to be a "need" application.

As regards the second aspect of the question stated above, lenders tell us that they are just as reluctant to approve a subsidized loan to a "no need" application for fear that a subsequent audit would find their justification insufficient. This new legislation has thrown the lender into an environment where their eligibility to receive payments of the interest subsidy is no longer the simple, easily determined matter they were used to dealing with. We would like to give an illustration which exaggerates in degree, but not in concept, what we are asking the lenders to face. Imagine, if you will, what would happen in this program if we were to issue guarantees to lenders on individual loans conditional upon our later acceptance of some form of justification on those having been initially written by the lender and placed in the student's file. Few loans would be made. Our lenders are not used to doing business in this manner, and can be counted on to usually reject anything that is not 100% certain.

It is our firm opinion that lenders will very infrequently take it upon themselves to adjust the amount of loan recommended by a school.

3. Will lenders make non-subsidized loans?

If it appears likely that applications for a student loan will be processed by schools, with respect to the needs test, in a manner similar to that used in connection with an application for an EOG, and that relatively few adjustments will be made by schools and lenders, then we must address the final question which concerns whether lenders will give equal consideration to applications which are not eligible for interest subsidy. In the past, our lenders have been able to save considerable administrative expense of subsidized loans by "bulk billing" the government four times a year on all accounts. The individual billing of students required in the case of non-subsidized loans is considerably more costly. Added to that are the collections and delinquency problems associated with quarterly collection of interest due from students who usually have a minimal income while in school. Any installment loan officer will tell you that his collections functions are among the most expensive administrative costs he must bear. These interest payments to be borne by the students are not insignificant. If a student borrowed the current maximum each year, throughout undergraduate school, he would be billed for approximately $130 every three months.

It is our opinion that lenders will make few non-subsidized loans. To the extent that non-subsidized loans are made, we feel that they will be made to students who previously obtained a subsidized loan but who are now found to be ineligible for an additional subsidized loan. Lenders do feel some moral obligation to continue providing assistance to those students. It is not likely, however, that many non-subsidized loans will be made to new students.

There have been a few reports that the percentage of non-subsidized loans being made to students has recently increased. Since no processing delay is associated with the making of a no-needs-test loan, and because non-subsidized loans are being made to some students who previously obtained a subsidized loan and such renewal loans are usually processed early, and because the total number of loans being made to students generally has declined very substantially, it is not surprising at this time of the year that the non-subsidized loans made to date constitute a relatively larger percentage of the reduced total number of loans being made to students generally. There is no hard evidence yet that the number of non-subsidized loans being made this year is greater than during prior years.

3. *The Council Proposal*

The "15/15 proposal" supported by the National Council since the "Summer of '72" is the only effective, logical and equitable solution to the current crisis in the student loan program, and we urge the Congress to enact that proposal into law immediately. Simply stated, the proposal would restore the full benefits of the original legislation without the requirements for a needs test, but would offer the expended benefits of the new legislation only where the borrower could demonstrate financial need. In other words, a needs test would not be required if a borrower's adjusted family income was less than $15,000 and his request for a subsidized loan was $1,500 or less. Any borrower seeking a loan of more than $1,500, up to $2,500, would have to submit a needs assessment as would a borrower whose adjusted family income was over $15,000 if that borrower was seeking a subsidized loan of any amount.

The "15/15 proposal" would restore the only available source of financial assistance for many middle income families. Because a high percentage of applications will be exempt from the needs requirement, it will help prevent an even worse log jam of paper to be processed from occurring in the late summer. The speed with which the tremendous backlog of paper was processed last summer after the needs test requirement was temporarily suspended is evidence of this fact.

The current Bureau of Labor Statistics Report entitled "Purchasing Power of the Consumer Dollar" shows that the value of One Dollar has been eroded 30.3% by inflation since 1965. Stated differently, the purchasing power of One Dollar today is 69.7 cents when compared to the purchasing power of One Dollar in 1965. On this basis, the adjusted family income level of $15,000 specified in the former legislation in 1965 has an equivalent value today of only $10,455. In addition, the average cost of room, board and tuition at the typical four-year institution of higher education has increased approximately 10% each year since 1965, for an overall increase of about 90% since the Student Loan Program was first enacted into law by the Congress. To return to the provisions of the former legislation as regards families with adjusted incomes of less than $15,000, which is the "15/15 proposal," is eminently fair and even conservative, to say the least. And it should be borne in mind also that as personal family incomes increase each year, even fewer families will come within the $15,000 adjusted family income group.

4. *Critics of the Council Proposal*

Critics of the Council proposal appear to assert two major claims. Some appear to contend that such a cure would be worse than the disease.

They would have you believe that to legislate the "15/15 proposal" at this time would reap only confusion in the lending community. To this we only can respond that the memory of such persons must not extend back to last August, 1972, when the Congress passed a resolution suspending the requirement for a needs test for exactly the same group of students embodied in the "15/15 proposal". Instead of exhibiting a state of confusion, the lending community broke all records in promptly processing the mountains of paperwork which choked the program at that time.

If one wants to address the issue of lender confusion, what can possibly be more confusing, more frustrating, even infuriating, to a lender than an inability to counsel friends and customers concerning their potential eligibility for loan assistance? It is the rare lender who can feel free to make unconditional commitments to prospective borrowers before their eligibility for subsidy is determined under the current procedures. Because of this confusion and uncertainty, lenders constantly are faced with disgruntled customers who don't quite believe their claims of ignorance and helplessness. Lenders have told us that this program, which they historically have supported in the interest of good customer and community relationships, has now become a public relations liability, thus erasing their major reason for participation.

The second claim we hear is that the drop in loan volume is of a temporary nature and will adjust itself in the near future. During the month of July, 1973 we have seen no real evidence that this is true. We don't doubt that delay in the processing of loan applications caused by the new requirements is resulting in some backlog of applications in the offices of financial aid administrators at the schools. But, in light of the five month volume statistics shown on Exhibits A, B and C attached, we certainly cannot agree that the drop in volume is of a temporary nature.

5. Public Awareness of The Crisis

We are just now seeing the tip of the iceberg in regard to public response to the March 1 charges. Right now thousands of students are merely irritated because of processing delays. It hasn't been revealed to them that they might not be eligible for a subsidized loan, and, therefore, not eligible for consideration by most lenders. What are we to say to these early calls, now just beginning to build, from the public and from the press. Can anyone seriously dispute that the vast majority of middle income student applications will be processed without any further adjustment being made, by use of the same needs tests which targets other federal aid programs to the neediest of the low income students? Can anyone seriously hold out hope to the middle income student that an application for a non-subsidized loan will receive any consideration from the lending community? What does one say to any middle income family today? Are we going into a period of benign neglect of the needs of the middle income families for loan assistance to educate their children? We appear to contradict ourselves when we state to a middle income family that the $15,000 income limit has been removed, and the maximum loan increased to $2,500 per academic year, but then say "Forget it. You are not eligible because you make $10,500 a year".

Unless the Council's proposal is enacted into law at this time, we feel that later this year, and to an increasing extent next year, there will be increasing public awareness of shifts in enrollment patterns brought about as a result eliminating the middle income group from the student loan program. We predict, in this regard, that unless the federal law is amended, an appreciable number of students will, by the beginning of the Fall semester, begin transferring from private educational institutions to public educational institutions, causing increased financial pressures at both such institutions, and that further shifts in enrollment patterns away from residence institutions to institutions within commuting distances of students may likewise take place. Access to postsecondary education and freedom of choice as between educational institutions for students is being diminished under the current law.

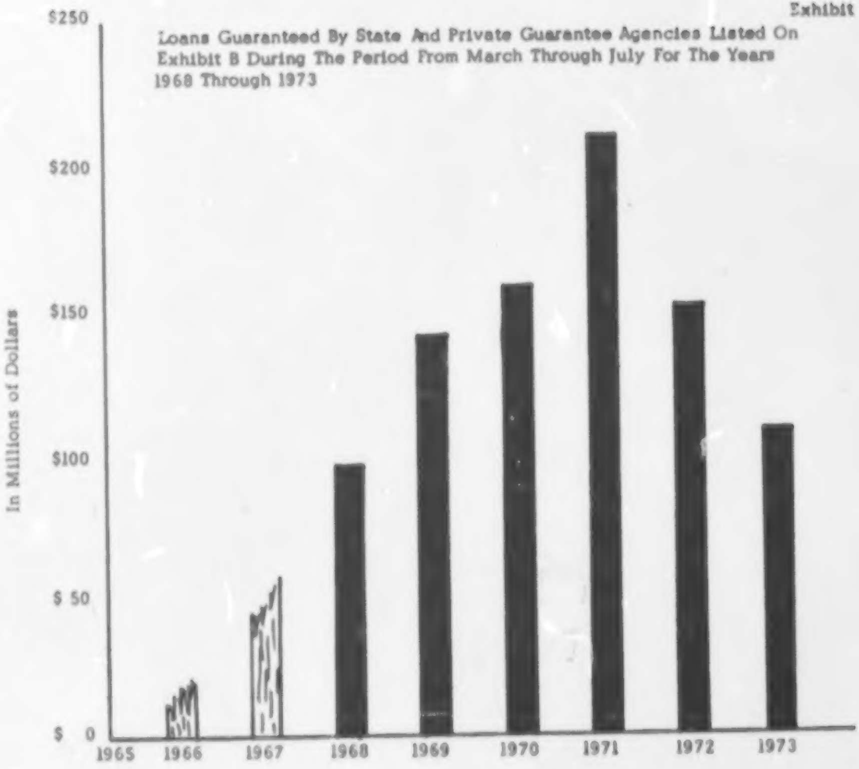
6. The Necessity For Action By The Congress

When the bomb exploded during the "Summer of '72", many members of Congress were quick to explain that the basic purpose in amending the interest subsidy provisions had been to increase the availability of loans to borrowers from the higher income levels and that they had no intention of decreasing the availability of loans. They were believed. Many were quick to claim prior ignorance of the fact that eligibility for interest subsidy and eligibility for a loan were almost always practically, if not legally, one and the same. And, they were believed. Almost every one we talked to claimed that what was finally regulated was not what he, individually, or the conference committee, collectively, agreed to. And, they too were believed. The Congress' swift action last August lent the final touch of credibility to all of those statements.

Now the Congress has had a year to observe behavior thus far under the program, five months of actual experience this year under the new law, and your staff has conducted pointed interviews with schools and lenders across the country. Unless today from these hearings, you can find one tangible shred of hope that we can take back with us and hold up to middle income families that they will be equitably treated by the needs tests being used, or that schools will suddenly have the time, ability, and inclination to make numerous subjective judgments on all middle income loan applications which cross their desk, or that middle income families can reasonably believe that their lenders will in fact give serious consideration to making them an administratively costly non-subsidized loan, then we submit that we have only two choices facing us. They are, to take corrective action by enacting the "15/15 proposal" into law, or to put an end to the claim that we are administering a program for the middle income family by announcing the same to the public through action or inaction. We will attempt to carry out the true intent of Congress once it is made manifest to us.

We appreciate the invitation to appear before your Subcommittee, Mr. Chairman, and will be happy to attempt to answer any questions that members of the committee may have. Thank you.

Exhibit C



Loans Guaranteed By State And Private Guarantee Agencies Listed On Exhibit B During The Period From March Through July For The Years 1968 Through 1973

Mr. McCabe. Mr. Chairman, it is a pleasure to appear here today on behalf of the Student Loan Marketing Association and its board of directors. For your records let me identify ourselves.

I am Edward A. McCabe, partner in the Washington-Chicago law firm of Manel, Park, McCabe & Saunders. I serve as chairman of the board of the Student Loan Marketing Association.

Appearing with me this morning is Mr. Timothy G. Greene, general counsel of the association. We are most interested in the work of this subcommittee and are anxious to assist the guaranteed student loan program wherever possible and that appropriate under our statutory franchise.

It might be helpful at the outset if I were to review briefly for the subcommittee the objectives of the Student Loan Marketing Association which is becoming popularly known as "Sallie Mae." Sallie Mae is a Government-sponsored, private corporation, to be operated for profit. It was created by the 1972 amendments to the Higher Education Act of 1965.

The purpose of Sallie Mae is to provide liquidity to lenders in the guaranteed student loan program—so as to expand funds available for lending to students under the program. Sallie Mae possesses broad statutory authority to develop such liquidity, primarily through providing a secondary market for student loans and by warehousing activities.

Secondary market activities can involve the direct purchase and sale of student loans by Sallie Mae. It can also include issuance by Sallie Mae of commitments, guarantees or other undertakings with respect to student loans in order to enhance their marketability by others.

Sallie Mae's warehousing operations will involve our actually making loans to lenders, these loans secured to Sallie Mae by the student loan paper warehoused with us by the lenders involved. The prices, terms, and conditions for this warehousing are to be determined by Sallie Mae.

However, under the statute, these warehousing loans may not exceed 80 percent of the fact amount of the student loan paper a lender warehouses with Sallie Mae. Proceeds from such warehousing loans must then be invested in additional insured student loans. In making such warehousing loans, to, or purchasing a student loan from, a lender, Sallie Mae is required by the act to assure itself that the lender does not discriminate on the basis of race, sex, color, creed or national origin—and that the lender does not discriminate by requiring the student borrower or his family to maintain other business relationships with the lender.

At the present time, HEW estimates there is outstanding approximately $4.5 billion of insured student loans. These loans are insured either under the Federal guarantee, the guarantee of various State programs, or the guarantee of private nonprofit guarantee organizations. All are eligible for Sallie Mae's operations, so long as the loan involved was made after the Federal program came into being. Since the Federal program was added to the State and private programs in 1965, nearly $6 billion has been loaned to over 3 million students by many thousands of lenders—each loan insured under one of the three guarantee arms of the total program; that is, by the Federal, State, and private guarantee mechanisms. The degree of success, the level of impact, of this diversified guaranteed loan program is dramatized by the fact that it has become the largest nonfamily source of financial aid for post-secondary education.

From the time when the great expansion of the guaranteed student loan program began, as this subcommittee knows, there has been a substantial liquidity problem for lenders. And while this liquidity problem has varied in its intensity from time to time, it has been fairly persistent. Sallie Mae was created to assist in alleviating this problem. We believe that through Sallie Mae's efforts, the amount of financial resources available for loans to students will increase—both immediately, and in the longer run.

On December 29, 1972, the President appointed Sallie Mae's 21-member interim board of directors with seven representatives each from finance, education, and the public sector.

For your records, you may wish to have the names and affiliations of Sallie Mae's board of directors and I have appended such a listing.

At present, Sallie Mae has a small professional staff of about 20 persons. Mr. Edward A. Fox, who is out of the city today on Sallie Mae business, has been selected by the board to be the president of Sallie Mae. Mr. Greene, who is here with me today, has been appointed by the board as vice president/general counsel. At this time, we are actively seeking additional executive personnel, particularly a comptroller/chief financial officer. Since its appointment the board has met on a regular basis. It is a working board. Proper staffing was a crucial first order of business. We moved carefully, but without delay. After a thorough search and evaluation we appointed our new president April 27, and we began operations under his direction May 14.

The board is pleased with the progress our president and his staff have made. We plan to maintain our momentum and we expect that through our continued efforts we will be able to bring substantial liquidity relief to the program for this school year. We have already taken significant actions to obtain funding for this purpose.

On July 16, 1973, Sallie Mae announced a proposed August offering of 700,000 shares of its common stock to eligible holders. These are for the most part qualified financial and educational institutions, and the offering will raise about $105 million for Sallie Mae. The funds from the offering will provide our initial capitalization and the financial resources for its initial operations. The securities offering is being managed by an underwriting team headed by Lehman Brothers; and including Merrill Lynch, Pierce, Fenner & Smith; Morgan Stanley & Co.; and Salomon Brothers.

About 25,000 institutions are qualified to purchase and hold Sallie Mae's common stock, and of this number about 7,000 are estimated to be educational institutions. We are making every effort to make every one of these institutions aware of our startup plans and future programs.

With this in mind, each eligible holder has already been furnished a preliminary offering circular describing the business and proposed operations of Sallie Mae.

Additionally, each will be contacted personally by a representative of our underwriters. Sallie Mae's directors and officers, long with the underwriters, currently are visiting 20 major cities and have scheduled public meetings in these cities with key people from finance, education, and the news media. We have also had excellent cooperation from education groups as well as financial people—in terms of news stories in their trade journals, newsletters, etcetera.

Through this information campaign, each of the approximately 25,000 eligible holders will be made aware of the offering and their opportunity to participate in it. I have brought with me today copies of the preliminary offering circular which are being distributed in connection with the proposed offering and will leave them with the subcommittee.

We expect the offering of common stock to be completed by no later than mid-August. The funds obtained will then be available to Sallie Mae. To provide liquidity assistance to lenders promptly thereafter, the Board of Directors believes Sallie Mae should initially start with a warehousing program. We have directed Sallie Mae's staff to prepare detailed plans for such a program.

As a first step—and I should emphasize that this is only a first step—the Board believes a warehousing program makes sense for two fundamental reasons. First, since Sallie Mae is developing its operational, systems, and staff capability, warehousing will be simpler to administer than would a program where loans are purchased directly; second, since what is involved is lending money, Sallie Mae can rely on the credit of the participating lenders in addition to the collateral, thus reducing Sallie Mae's business risk exposure while work continues apace on more complex programs.

The employment of $100 million in an initial program is not insubstantial by any measure, yet we recognize the need to infuse in the system much greater dollar amounts to provide meaningful liquidity relief to participants in the guaranteed student loan program. The effective utilization of $100 million, coupled with the fact that Sallie Mae is now operational, should be an immediate signal of encouragement to participants in the program. To have a meaningful immediate financial impact, more than $100 million will be required. This means Sallie Mae will need promptly to follow its initial capital offering with the sale of its own debt obligations—which are authorized to carry the full faith and credit of the United States.

We know your committee, Mr. Chairman, is trying to find reasons why the dollar volume of loans so far this year is off the pace of last year. We at Sallie Mae don't presume to have ready answers to all parts of this problem. We believe lender liquidity is a part of the problem—how big a part we can't be sure. However, we are confident that in short order we can make a major dent in that problem—and we believe you should include that consideration in your assessment of the proposals which are now before you.

We are aware that the timing of our activities is critical. This is why we are bending every effort to see that relief is provided promptly, so it will be felt in the coming school year. As we see it, Mr. Chairman, that is why we were established.

There are many more aspects of Sallie Mae's operations we could discuss here. However, I think it might serve your purposes better if I conclude my comments at this point so that Mr. Green and I might respond to questions.

(A list of members of the Board of Directors of the Student Loan Marketing Association follows:)

MEMBERS OF THE BOARD OF DIRECTORS OF THE STUDENT LOAN MARKETING ASSOCIATION

Edward A. McCabe, Esq. (*Chairman*), Hamel, Park, McCabe & Saunders, Washington, D.C.

The Honorable Joseph W. Barr (*Vice-Chairman*), Chairman of the Board, American Security and Trust Company, Washington, D.C.

Dr. Howard E. Brooks (*Vice-Chairman*), Provost, The Claremont Colleges, Claremont, Calif.

Mrs. Cassandra M. Birnie, Attorney-at-Law, Philadelphia, Pa.

Dr. Colin D. Campbell, Professor of Economics, Dartmouth College, Hanover, N.H.

Miss Melissa H. Dempsey, Keystone Custodian Funds, Inc., Boston, Mass.

Mr. John M. Dozier, Vice President and Treasurer, Macalester College, St. Paul, Minn.

Paul W. Eggers, Esq., Attorney-at-Law, Dallas, Tex.

Dr. Dorothy M. Ford, Whittier, Calif.

Mr. Morris J. W. Gaebe, President, Johnson & Wales College, Providence, R.I.

Mr. David B. Harper, President, First Independence National Bank of Detroit, Detroit, Mich.

Dr. George Kozmetsky, Dean, Graduate School of Business, University of Texas, Austin, Tex.

Mr. Kenneth V. Larkin, Senior Vice President, Bank of America, San Francisco, Calif.

Mr. Marford O. Lee, President and Chairman of the Board, Vanity Fair Corporation, Reading, Pa.

Neil McKay, Esq., Executive Vice President and Cashier, First National Bank of Chicago, Chicago, Ill.

Mr. John W. Mulcahy, Asst. Dean, School of General Studies, Iona College, New Rochelle, N.Y.

Dr. James J. O'Leary, Vice Chairman of the Board, U.S. Trust Company, New York City

Philip H. Potter, Esq., Charles E. Walker Associates, Inc., Washington, D.C.

Mr. Allan W. Purdy, Director, Student Financial Aid Services, Uuniversity of Missouri, Columbia, Mo.

Tom B. Scott, Jr., Esq., President, First Federal Savings & Loan Association, Jackson, Miss.

Mr. William I. Spencer, President, First National City Bank, New York City

Mr. O'HARA. I would like to ask Mr. Muirhead to advise the committee in what respects the analysis of your department as to the problem in connection with student loans differs from that given us by the staff, if it does in any way, and what actions the department is either taking or contemplating with respect to the problem that has been described to use by the staff.

Mr. MUIRHEAD. Thank you, Mr. Chairman.

I am pleased to submit my statement for the record. First of all, Mr. Chairman, I would like to join with the members of the committee in applauding the efforts of the staff. I think it has been a very significant exercise they have gone through. Undoubtedly it will help us in our responsibilities for administering the program.

I would like to say that the guaranteed student loan program, among all of the programs for which we have responsibility, is the one that is probably—it has probably had more tender, loving care and attention than any other program for which we have responsibility. The suggestions and the report of the staff we find are quite in accord with what we have found out in our own survey of the problems surrounding the guaranteed loan program at the moment. We continue to have a deep concern about the statistics that we have before us for the last 4 months in the program. I think it is reasonable to assume that we all expected that there would be a drop in both the number of loans and in the dollar volume, but I don't think any of us was quite prepared for the intensity of the drop, both in number and on the dollar volume.

We have made our analysis and feel that in some respects we have not been as explicit as we might have been in communicating to both the student financial aid officers and go to the lenders the particular authorities and flexibilities which the regulations provided them, the regulations flowing from the statute.

We have taken steps to, we hope, correct that by sending out a letter this week to the student financial aid officers, and I would be glad to submit a copy of that for the record if you so desire, calling to their attention that a student financial aid officer is indeed empowered to examine the product of the family contribution that is produced by the system, and to exercise his judgment in determining whether or not that is indeed a realistic family contribution.

We have suggested in the letter and in the accompanying materials what some of those reasons might be. In other words, we have said the student financial aid officer is indeed a professional, and we expect him to exercise his judgment. We have tried to allay what concern the student financial aid officer might have as to whether or not such a decision might come back to haunt him following an audit, and we have indicated that if the student financial aid officer follows the directions that are set forth both in the regulations and in the application blank, and document that in the record, then that will stand up to an audit review.

On the other hand, we have found, just as the staff did, that lenders have been reluctant to make a judgment other than the statement or the recommendation that has been provided to them by the college. And we have said to the lender that.

> You, too, have flexibility. You may have some information that was not available to the student financial aid officer. You may know the family better than he did, and consequently you can make a judgment to say that that family contribution really is not realistic because we know the family can't find that amount of money at this time.

And if he properly documents that, then we have assured him too that that, too, would stand up to audit review.

We thought that when we re-did the regulations to make a more generous interpretation of cost of education and to provide flexibility to the student financial aid officer and to the lender, that we would hopefully avoid the same crisis that we had at a comparable period last year. It has not worked out quite that way. We have hopes, just as I think the staff was reporting to you, that the situation will improve.

You know, it would not be candid for me to say to you that the situation will return to normal, if you take as normal the operation of the program before the amendment. But we do have a feeling that if you take into account the student financial aid officers' use of the flexible authority that he has, if you take into account that possibly there are a considerable number of student loan applications on student financial aid officers' desks now, that they are now turning their attention to with increased devotion of time, that the situation will improve. We hope that it will improve to the point where we can say with some reasonable assurance that the purpose that Congress had in mind in amending the legislation will be served, and that purpose, as I understand it, Mr. Chairman, was that there should be an opportunity for students coming from families above $15,000 to be able to get a subsidized loan if they can make a good case for it.

But by the same token, there should not be available to students under $15,000 family income subsidized loans if they do not indeed need it for the cost of their education.

Mr. O'HARA. Mr. Muirhead, here we have—by the way, I will ask unanimous consent to insert in the record at the appropriate point in your testimony the text of the bulletins dated July 23 that have been sent to schools and to lenders.

(The bulletins follow:)

BULLETIN TO ALL LENDING INSTITUTIONS—THE GUARANTEED STUDENT LOAN PROGRAM

PROGRAM OPERATIONS

During the last few months, there has been a marked decline in both the number and dollar volume of loans made to students as compared to a year ago. We feel that this reduction may be due, in part, to a need for further clarification as to program procedures and the options available to lenders in the administration of this program.

By way of background, the Education Amendments of 1972 (P.L. 92-318) specified that in order for a student to be eligible for payment of Federal interest benefits, the student must submit to the lender a recommendation by the educational institution as to the amount needed by the student to meet his educational costs. In making this determination, the school must subtract from the cost of education, the expected family contribution plus any other resources or student aid which the institutions determines to be *reasonably available* to the student during the period of the loan.

It must be emphasized that the sole purpose of the school's recommendation is to help determine if the student will qualify for Federal interest benefits. Any student, regardless of need, may still receive an unsubsidized loan if the lender is willing to assist that student.

Furthermore, lenders may make a subsidized loan in excess of the school's recommendation (including a $0 recommendation) provided that the lender has reason to believe, based on his specialized knowledge of the family's financial situation, that the school's determination of the "expected family contribution" as reported in Part B—Section III of OE Form 1260 (Student Loan Application Supplement) is not realistic. Where the lender makes a subsidized loan that exceeds the school's recommendation, the lender has, in effect, adjusted the "expected family contribution." Lenders should indicate in their files the basis for exceeding the school's recommendation.

Lenders are encouraged to exercise this option by carefully evaluating the school's recommendation coupled with other information available to them in order that the most equitable judgment be exercised in the processing of the student's application. Lenders have been previously provided detailed instructions relating to procedures for utilizing the school's recommendation to determine a student's eligibility for Federal interest benefits. Additional copies of these instructions may be obtained from the nearest regional office of the Office of Education or the appropriate guarantee agency.

SPECIAL ALLOWANCE

The Secretary of Health, Education, and Welfare has approved the Special Allowance at the rate of 1¾ percent per annum for the quarter ending June

30, 1973. It will be applied to the average quarterly balance of loans made since August 1, 1969, and still outstanding. All such loans are eligible for the special allowance, whether or not the loans are eligible for Federal interest benefits and regardless of whether the students are in school, grace, deferred or repayment periods.

Lenders are reminded that this rate is, by law, determined restrospectively. That is, the rate reflects the economic conditions that existed during the period April 1 through June 30. Thus, the effective rate of interest on guaranteed loans during that period is 8¾ percent. The note evidencing the loan, however, may not reflect a rate higher than 7 percent.

STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE)

On July 16, 1973, Mr. Edward A. Fox, President of the Student Loan Marketing Association, announced plans to offer 700,000 shares of common stock to eligible financial and educational institutions, raising $105 million for the initial capitalization of Sallie Mae. In order to acquaint eligible holders more fully with Sallie Mae and this offering, all lenders have been invited by Sallie Mae to a number of presentations being held throughout the country. Members of Sallie Mae's management and representatives of the several underwriters will conduct these information meetings.

Sallie Mae's objective is to provide liquidity to the student loan market. Caspar W. Weinberger, Secretary of Health, Education, and Welfare (HEW), declared that "Sallie Mae is a milestone in the Government's Guaranteed Student Loan Program (GSLP)." Sallie Mae is empowered to provide liquidity through secondary market activities which involve the direct purchase and sale of student loans as well as the issuance by Sallie Mae of commitments, guarantees, or other undertakings with respect to student loans. In addition, Sallie Mae can engage in warehousing operations which involve the making of loans to lenders secured by student loans. Advances made in warehousing operations may not exceed 80 percent of the face amount of the student loan collateral and proceeds from such warehousing advances are required to be invested in additional insured student loans.

BULLETIN TO ALL STUDENT FINANCIAL AID OFFICERS—THE GUARANTEED STUDENT LOAN PROGRAM

During the last few months, there has been a marked decline in both the number and dollar volume of loans made to students as compared to a year ago. We feel that this reduction may be due, in part, to a need for further clarification as to program procedures and the options available to educational institutions in the administration of the program.

By way of background, the Education Amendments of 1972 (P.L. 92-318) specified that in order for a student to be eligible for payment of Federal interest benefits on a guaranteed loan, the student must submit to the lender a recommendation by the educational institution as to the amount needed by the student to meet his educational costs. In making this determination, the school must subtract from the cost of education, the expected family contribution plus any other resources or student aid which the institution determines to be *reasonably available* to the student during the period of the loan.

It must be emphasized that the sole purpose of the school's recommendation is to help determine if the student will qualify for Federal interest benefits. Any student, regardless of need, may still receive an unsubsidized loan if the lender is willing to assist that student.

Furthermore, lenders may make a subsidized loan in excess of the school's recommendation (including $0 recommendation) provided that the lender has reason to believe, based on his sepcialized knowledge of the family's financial situation, that the school's determination of the expected family contribution is not realistic.

The following guidelines are provided to student financial aid officers to assist them in the administration of the Guaranteed Student Loan Program and its relationships to other student aid programs:

1. Student fiinancial aid officers are permitted to adjust the expected family contribution where, in their judgment, the amount of the computed

family contribution does not realistically indicate what the family can contribute to the cost of education. We strongly recommend that the financial aid officer exercise this option by carefully evaluating the results of the needs test in order that the most equitable judgment be exercised in the processing of the student's application. Schools have been provided, in the instructions to FORM OE 1260 "Student Loan Application Supplement" (copy attached), 7 codes they may use where the computed need, as determined by the needs analysis system, is not reasonable. Schools should document their files as to the basis for using one of these codes. If reasonable documentation exists, there should be no concern as to exceptions that may be taken in the future by auditors.

2. If the student is not applying for Federal interest benefits, there is no requirement that an assessment of the student's expected family contribution be made. In such cases, the student need complete only the affidavit portion of Form OE 1260. Of course, the school will still have to certify the student enrollment, cost of education, and other aid received on the regular application form. In the case of loans guaranteed by State or private guarantee agencies, these procedures may vary somewhat.

3. The total of all aid made available to and received by a student may not exceed his cost of education, regardless of when he receives such aid.

4. If the student receives a guaranteed loan before the institution has awarded aid, the institution must treat the guaranteed loan as a resource available to the student towards meeting the cost of education.

5. As previously indicated, lenders may make a subsidized loan to a student that exceeds the school's recommendation. Where this happens, the lender has, in effect, determined a new "*expected family contribution.*" If the student receives a guaranteed loan (subsidized or not) after the aid package has been awarded by the school, there is no requirement that the aid package be adjusted, provided that the total aid, including the guaranteed loan, does not exceed the cost of education.

Mr. O'Hara. Now, let me briefly comment on it. It seems to me what you are trying to say is, "Look, don't get all up tight over what this expected family contribution schedule produces."

In the bulletin to the financial aid officers, you say, "Now, remember, you are permitted to adjust the expected family contribution where, in your judgment, the amount does not realistically"—and so forth and "We strongly recommend that the financial aid officer exercise this option by carefully evaluating the results of the neediest in order that the most equitable judgment be exercised," and so forth.

And down in 5, "As previously indicated, lenders may make a subsidy loan to a student that exceeds the school's recommendation."

I think, if you will permit me to interpret a little bit——

Mr. Muirhead. Yes.

Mr. O'Hara. I think what you are trying to say is that the needs analyses that have been used have put too tight a garment on this program. And you are trying to point out ways to people that they can let out a few seams here and there and loosen it up some.

But what I am going to suggest is maybe we need a somewhat different garment to start off with. Maybe what the problem is, is that the needs analysis schedule that makes sense when you are talking about making a grant to someone, a scholarship or some other sort of grant, is not the exact sort of needs analysis that you need when you are talking about making a loan to someone.

Let me amplify. I think that it is perfectly reasonable to say to someone who comes to you seeking a grant for his education:

> Well, now, look, I see that your family is making $11,316 a year, and you have equity in a two-bedroom home on a 45-foot lot that is probably worth $22,000

> and I know that you have two cars in the family, although they are both rather ancient, nevertheless, they are automobiles—so what we say to you is rather than come here and ask us for that money, why don't you refinance the loan. You only have 4 more years to go on that mortgage and you have been paying on it for 16 years. Why don't you start over again, refinance the mortgage on the house. Why don't you see about selling one of the cars?

I think that, if someone is going to come to you and say, "Give me some money that I can use for my schooling because it is so important that I get a higher education," that it is somewhat reasonable to say to them, "First, let us make sure you have done all the things you could for yourself."

But, on the other hand, I am not so sure that when you are only proposing to loan that person some money, that it is realistic to expect that they are willing to pay for a higher education by refinancing that home and by getting rid of the second car and a few other things.

Maybe what we need is a different kind of a formula. Now, I was not on the conference committee, a fact for which I was grateful at the time. And it simply overwhelms me with joy as I have had a chance to look back on it.

But it seems to me when the conferees said, ”We will assume need below $15,000”, that they were not anticipating that so many of those needs determinations would come up showing that that need that they assumed was a need for zero dollars. You know, I do not think that is where they thought they were heading. Now, I would like to have comments from you and others.

Lois?

Ms. Rice. I would just like to comment, if I could, and not give a long history of needs analysis. The systems for the determination of family ability to pay—developed over the last 20 years, were never designed to assess family ability to pay for loans for convenience.

The systems were designed initially to do several things. First, to provide equity in the treatment of students of similar income levels so that they would not be competing with dollars for students. They were also designed to distribute equitably very scarce resources for student aid.

How do colleges distribute fairly and equitably limited moneys? There are no limits to funds supposedly for a program like the guaranteed loan program is a loan program. You are quite right in saying that this are differences between loans and grants we stick to the notion that the guaranteed loan program is a loan of convenience (and I think at times we lose sight of that history of the program) then it is designed for middle-income families necessary to say that we have the least knowledge about the disposable income of middle- and high-income families particularly families above $12,000 or $15,000 in annual income.

We have one system for the basic grants program. We have several systems that are used for the college-based programs. I wonder what would happen if we had still another system for the loan program, there would be public confusion with three or four different systems for BEOG's, another for the SEOG program college work study and NDSL, and still another for the Federally insured loan program?

There are implications to for the student. Who would be faced with a multiplicity of outcomes. Then too, if we add another system, what this will mean in terms of public policy? Is the purpose of the guaranteed loan program, to provide loans of convenience, and access to loans or to provide loan subsidies.

This is a question with which this committee will have to grapple. Do you want to have larger subsidies in the program than you currently have, or is the issue a program that makes loans easily accessible for higher education and provides deferred payments of the loans. These are policy issues. Are we attempting to provide a loan program easily accessible to people or to provide subsidies?

What is the population for whom the program was designed. Is it the current borrowers, many of whom are from moderate income families or middle income families who seek deferred payments of the higher education bill.

Mr. DELLENBACK. Mr. Chairman, I would like to follow that for just a moment. You lay out, Lois, very well a number of the questions with which we must grapple, and I am particularly interested in what might at this moment be said by you about two things. One when we talk about change and the possibility and desirability of change legislatively, are you recommending ultimately immediate versus long range? I would like a distinction between those two.

Ms. RICE. I was trying to be very careful, not to recommend anything.

Mr. DELLENBACK. I thought you followed the injunction we gave to the staff very well. There are times we would like to have you on the staff and there are other times we would like to push you for a recommendation. Then may I ask a second one.

With the complexities that come with the multiple needs test versus the single needs test which are you recommending for these various programs? May we get your input on those two?

Ms. RICE. To try to be responsive to the first question whether there is a need for immediate or long range legislation change. I feel (and I am speaking now for myself and not for the CEEB), that long-range change is demanded. Historically the program has been patched and patched as crises have evolved.

The time has come, in my view, to stop putting more patches on the quilt, and to design a new quilt. I'm advocating therefore long-range legislative change.

If I recall correctly the conference on the educational amendments of 1972 and the debate on that legislation, the guaranteed loan program or the federally-insured loan program was given fairly short shrift in relation to other issues of student aid, institutional aid.

There is a need to look at this program past, present, and future, to see what it has accomplished and what it is intended to accomplish. Rather than make a minor change each July and August that seems to fit the given circumstances of the moment. The program should be viewed in its entirety.

Mr. DELLENBACK. Just a brief comment. I am pleased to hear that, and I think that both the chairman and I see this time after the passage of the education amendments of 1972 and before the program authorizations therein run out as a time for the very kind of looking that you are now talking about and I think this is part of what is involved today on the second one.

Ms. Rice. On the second question, there are strong arguments on both sides. I do not think that I could argue for a means test suitable to the guaranteed loan program that would also be applied to other college based programs. I agree with Mr. O'Hara, that the other program, SEOG, CWSP, and NDSL were designed for a very, very different set of purposes. We still have scarce resources in those programs and it would be very, difficult to have a needs test designed for the loan program that would also fit the peculiar needs and scarce resources of a grant or work-study program.

That would seem, I know, to argue for a series of tests, but I think I tried to outline earlier that there are pros and cons on both sides of that and I am not certain that the policy decisions that I mentioned do not have to be made before we make the determination as to whether there should be one test or two or three.

Mr. Dellenback. Thank you very much.

Mr. O'Hara. Anyone else like to comment?

Mr. Muirhead. May I comment on Lois's fine contribution? It seems to me that we are trying almost an impossible task at the moment, in that we are trying to fit the purposes of the guaranteed loan program into the purposes of programs that are designed to open up education opportunity for those who are in financial need. I do not think there is any difference of opinion in all of the groups here that there is need to provide additional assistance for middle income families and with the costs of education escalating as they are, that need is going to become even more acute in the years ahead.

But it seems to me we ought to make a distinction between providing some assistance that will enable the middle income family to pay the higher costs of education without unduly intruding into their way of life or their assets or requiring them to liquidate assets, or the like. I feel, you know, compelled to call to your attention that the guaranteed loan program represents a very sizable impact on the budget. I think sometimes we fail to realize that the carrying of the subsidy for the guaranteed loan program—at the present time, for example, the request is $310 million. Now, with this committee and with the administration joining together as they have in trying to use all of the available resources that we can find to open up educational opportunities for young people from disadvantaged backgrounds, the use of this money competes, of course, with the request for basic grants. It competes with the request for supplementary opportunity grants. It competes with requests for college work study. It seems to me that, picking up the suggestion that has been made here, we need to take a very long look at the guaranteed loan program and its purposes and we may very well come to the conclusion that the guaranteed loan program does serve an important purpose but that it does not necessarily have to carry a subsidy.

The guaranteed loan program in its nonsubsidy form is indeed a very effective way of helping middle and upper middle income families to get over the hump of paying the college cost of the students. It provides loans at a much lower rate than would be normally available to a family going to a bank. It provides a Federal guarantee and it provides an extended repayment period.

That, in itself, is a very important contribution to helping middle income families. I would be reluctant to have us—without a great deal of study—superimpose another type of financial needs test. I heard the comments from the staff that there was considerable criticism of the financial needs test that is now in place. I would offer without at all trying to be facetious that the only thing worse than that would be not to have it. We have for 25 years been working on a way of trying to determine what a family can reasonably be expected to contribute to higher education costs. It has its frailties, it has its inequities, but it is the result of a great deal of thought over a great many years.

It seems to me if we are talking about the use of scarce resources and—I have no reason to believe that they will not continue to be scarce—that we should stick as closely as we can to finding an effective way to use those resources to achieve the goal we have in mind, and that is that nobody will be denied an opportunity for a postsecondary education. So, my suggestion would be that, as I think was indicated by Congressman Dellenback, when this program comes up for review, at least the special allowance feature of it comes up for review, that we open up for a full-dress hearing and a full-dress investigation as to what is the most effective way to use the guaranteed loan program to serve acknowledged needs of middle, upper middle income families.

Mr. O'HARA. Yes.

Mr. PAYTON. Mr. Chairman, I would like to respond on behalf of the National Council.

Our paper has been introduced into the record and is in your files, and I am sure that each of you will peruse those papers.

I would like to respond very briefly, if I might, to some comments made by Mr. Muirhead and Ms. Rice.

Mr. Muirhead has indicated to you that—concurring with your statement and Ms. Rice's—that perhaps the needs test being used in this program is not workable in this type of program. We concur with that, and have so stated in our paper.

At the same time, we earlier indicated to you that the memorandum which was just mailed to the schools should serve to be helpful, and we submit to you that if the system doesn't work the memorandum won't help. And we submit that the system doesn't work.

Secondly, Mr. Muirhead has just indicated also that there needs to be a way to help middle-income families or their children, rather, to go to school. And perhaps the best way to do that would be through some form of nonsubsidized loan.

All of the evidence that has been laid before you by your own staff is to the effect that unsubsidized loans will simply not be made by the lending institutions at these low interest rates and long terms. So I submit really that the position of the Office of Education upon this issue is contradictory in and of itself and is really not facing up to what we see is the true crisis.

You referred to the fact that perhaps we need a new garment. Lois referred to it as being a quilt. We believe that the proposal that we made to you, the 15-15 proposal is the new garment. We believe that the $15,000 cutoff level is in and of itself a form of needs test, particularly when you consider the fact that since 1965, when the program started with the $15,000 limit, inflation has eroded 30.3 percent of that amount meaning that a 1965 dollar has the purchasing power today of 69 cents. The $15,000 in 1965 today has the purchasing power of $10,455. These are Bureau of Labor statistics.

Couple that with the fact that the cost of room and board and tuition has increased somewhere from 8 to 10 percent a year since 1965, you are faced with the issue of an increase in the price of the product of about 80 percent, and less purchasing power of the dollar.

Of course personal incomes have gone up, but not enough to offset that.

We submit, further, that each year since 1965, increasing numbers of families have been excluded because of the $15,000 limit because additional numbers each year began to earn more than $15,000. This will continue.

Now, Mr. Chairman, I would like, with your permission, to draw attention to some new statistics and new figures that are included in the testimony which you have not had.

The administration has provided you figures earlier at the time we testified before the Senate a month ago. The testimony was to the effect that the volume in the student loan program for the 3 months, March, April, and May, nationwide, was down 43 percent.

I would like to make two points. No. 1, the administration figure given to you now and most any day, I suppose, will be a national average figure. So it includes what is happening in the Federal program and in the State program, and Congressman Dellenback asked an earlier question on this point. So on this point let me state this. Please realize if you will that the 27 State and private guarantee agencies which we represent primarily in the eastern part of the United States—our own volume almost in its entirety goes to students who are attending college and public vocational schools.

No more than 5 to 8 percent of our volume constitutes loans to students in the vocational area, and this will vary from State to State, but 5 to 10 percent.

Very, very little of our volume represents loans being made to students that attend proprietary schools. So we are, basically—our program, right or wrong or what not, must be recognized for what it is.

We are serving the college bound students and the students attending the public vocational schools, but very, very little to the proprietary schools.

The Federal program, on the other hand—and Mr. Bayer can correct me if I am wrong here, but the information that I have out of the Office of Education is basically this: The Federal volume is not down as much as is our volume in the State agencies.

But look closely at what comprises the Federal volume. It is my understanding that the current volume, not the average for the last 6 or 7 years, but the current volume in the Federal program comprises about 70 percent loans being made to students that are attending proprietary schools.

If this is true, then the indications are that only about 30 percent of their volume represents loans to students attending colleges and public vocational schools in the States in which that program is operated.

I would further like to point out that of the total Federal volume in this area, right about 50 percent of their current volume of loans is being made by proprietary schools acting as lenders who process the application and then make the loan directly to their own student.

So those loans are self-serving in the sense that the lender is making the loan to his own student and that represents 50 percent of the Federal volume.

Now, with that in mind I would like to emphasize that you realize who is serving whom in the two areas, and then draw your attention to our exhibit A, which relates to the volume in the guaranteed agency States.

I have listed on exhibit A the volume for the States, the individual States, and among our group of States—the volumes for the period March through June 1971, and then July only, 1972; likewise March through June, but July is excluded, obviously, because this program was not functioning last July. So any comparison with that month would be out of kilter. And then our volume March through June 1973, and then our volume in July.

Now, how did I get our volume in July, because the month hasn't ended? Let me make that clear first.

I had all of our guarantee agencies report to me by phone by Monday of this week their volume through July 20, and I stated in the footnote that I have increased that volume by 50 percent to estimate their full month's volume through the end of the month.

Now, you can look at the individual State statistics. They are practically all minuses. Wherever you see a plus I would caution you that there are unusual circumstances which account for a temporary plus in those States.

However, in 1973, for the 4-month period March through June of 1973, compared to March through June of 1972, you will note that in our States our volume was down 50 percent. That is higher than the 43 percent national average.

If we compare July, 1973, volume to July of 1971, our volume was down 49 percent.

Now, I have separated this for the simple fact that a month ago we were told "Don't be alarmed, just wait, because the paper is out and it will be coming in in July."

These facts do not show any pickup this month.

I would like to point out another important fact. The State of New York is a very large State and what happens there affects our figures. New York, because of internal reasons, had a drop last year so their change between last year and this year is not as significant.

I have noted that if you exclude New York's figures and look at the rest of us, our decline, Mr. Chairman, is 60 percent of our volume. And in some States this runs up to as high as 74, 78, 69, 79 percent.

On exhibit B I have given you for the same States their loan volume for the same 5-month period, March through July, dating all the way back to 1968.

It is readily apparent that for this year, 1973, with a $107 million volume, we are almost back to the 1968 level of 6 years ago. That same information is represented on the bar chart attached.

Mr. Chairman, if I might have 2 or 3 more minutes, the issue before us is whether or not there is a crisis in the loan program. The facts and the statistics I have just referred to would indicate a serious crisis. Our paper documents that crisis.

We concur right down the line with the finding of the program related problems as reported to you by your staff.

Now, the issue, however, we feel, boils down to one question and one question only, and that is whether or not Congress intends this program to provide loan financial assistance to the middle-income families of America.

Mr. Chairman, we think you have to decide that issue. Do you intend or do you not intend to help the children of middle-income families?

Our facts and our belief is that the effect of the 1972 amendments is to exclude, basically, whether intentionally or not, this loan program from the children of the middle-income families. And we submit to you that under the current law and the current regulations, this program is being targeted to the low-income family.

This is a basic fact, as has been stated by you and by Lois. Once you admit the fact that when you impose upon this program the use of a needs test designed to parcel out limited funds such as S.E.O.G. funds to the neediest of the needy, then you are talking about not only the low income, but the lowest of the low income in terms of need.

When you tell this Nation, 8,000 institutions with multiple aid personnel in them that you use a system and then you use your subjective judgment and prostitute the system, then we are not being honest with ourselves.

One other point. When we speak with parents and children and we say "Yes, you know the student loan program has been liberalized; a $15,000 limit has been taken off; maximum loans have been increased to $2500; but don't apply because you make $10,500," we are in a contradictory position of saying "Limits have been removed but you are excluded."

Last year, last summer, when the crisis of 1972 erupted, many Members of Congress were quick, when we contacted them, to explain that the basic purpose of amending the program last year had been to increase the availability of loans to borrowers from higher income levels who had multiple children in college, those going to high-cost schools who might need more than $1,500, and that they had no intention of decreasing the availability of loans. And they were believed last summer when they told us that.

Other Members of Congress were quick to claim that they were ignorant of the fact that the eligibility of a student for a subsidized loan in effect controlled his ability to get a loan of any type. When they professed ignorance of that fact, we believed them, also. And almost every Congressman we talked with claimed that what was finally regulated was not what he individually or the conference committee collectively intended. And they were believed. And then when Congress acted in August to roll it back until March of this year, that lent credibility to those statements made to us and we anticipated hearings then, and in fact hearings were scheduled, but they were canceled.

So we have gone into it. This is the 5-month experience. We ask you to tell us today and to tell this Nation whether or not you intend the program to help middle-income families.

Either we do or we don't. If we do, we submit to you that there is only one remedy and that is legislative, and we think it is a good remedy.

Maybe it is not the best quilt, but it has taken 25 years, Mr. Muirhead, to get what we have now.

I don't believe we have the collective wisdom in the next few weeks to design a new quilt. We know that 15–15 worked before. The 15–15 is a better proposition.

Mr. O'Hara. Mr. Payton, in effect your proposal is, in a sense, a change in the needs test. In other words, you are going to assume a need of $1500 for someone who has an income not in excess of $15,000, right?

Mr. Payton. Yes.

Mr. O'Hara. That is sort of a basic assumption. And then if they want—if they are under $15,000 and want more than that, and the needs test comes into play, a needs formula, right?

Mr. Payton. Yes, sir.

Mr. Muirhead. Yes.

Mr. O'Hara. And if they make more than $15,000, then they have a needs formula that comes into play right?

Mr. Payton. Yes, sir.

Mr. O'Hara. So really what you are saying that you need a different kind of a test for a different kind of a program.

Mrs. Edwards. Mr. Chairman——

Mr. O'Hara. Yes?

Mrs. Edwards. I would like to say, first of all, that we too, the financial aid administrators, have very deep concern about the numbers of students who have not been able to obtain these loans in order to enter schools this fall. We recognize there has been a considerable drop since March 1, 1973. We are equally aware of the number and the variety of reasons and factors which contribute to this. So we have already, in our paper, said that we think, and we hope, and we strongly urge that your body will take a long, hard, critical look at the program in its totality over the next few months, and we are hopeful that you in your wisdom will then come up with a program which is acceptable to the lender and which will make available to the students these funds they need in order to go to school.

At the same time we are saying, however, that there is an immediacy involved here. We would hope also that you would take some interim action to relieve the situation at present.

We say, further, that certainly 15–15 will relieve the situation. That is one very good way of doing it. And we do view this as being an emergency.

Another way of doing it possibly would be to say that the guaranteed loan may be used to replace parental contribution. There is so much tied up in this present situation, this present confusion, because so many of the regulations are not clear.

We feel that probably many lenders, and probably the aid officers too, have not used this so much because it is not stated so that we can do it with impunity at this point in time.

But this, I think, would get at some of what our friends want as to doing what we want to be able to do so these students can get these loans that can be shaken loose for them now.

Mr. O'Hara. I might just mention one thing, and I will let other members direct questions and comments. Let me just say this. We are going to be making a review of the student assistance programs generally and their operation as we get later on into the year, of course not with any mind toward this immediate program. You know, we are going to try to take up this problem separately.

Mrs. Edwards. Yes.

Mr. O'Hara. But one of the things I am very interested in is this whole question of what percentage of the loans under this program are going to students at proprietary institutions as compared to what percentage of the total post-secondary-student group is attending proprietary, and try to figure out—of course, as Mr. Payton points out, there is a real incentive there for the lender.

I know our friends from the ABA haven't said much so far. But one of the problems, of course, is that most banks, commercial banks, don't suggest they feel any great incentive to enter into these loans. But I know that if they were operating a school, if the First National Bank of New York was owned and operated by Columbia University, it would feel a great deal of concern about how many kids got loans to attend Columbia. And they would have a very great program going to make those loans. So that is another factor we want to look at at that time.

But I don't want to really get into it now.

Mr. Lehman, did you have something?

Mr. Lehman. Yes, Mr. Chairman, for just a second before we go to the quorum.

You know, I get awfully tired of need as a basis of student help from the standpoint of when they first get to the free lunch program in kindergarten, the whole student aid program is based on need and I don't know what the answer is, but I know that a family of $20,000 or $25,000, maybe two-income people, when they finally get to the point in life where they have 20 or 25 years of work, all of a sudden if their kids want to go to college they are strapped again. And to me, I think one of these days we are just going to have to throw out this whole need concept because the amount of families that are really in the income brackets above the $20,000 or $25,000 are not that big anyhow.

I would just like to see us one day deal with the problems that really exist. We really should do it and throw out the whole need as a basis of student loans.

I can't see that in this session. But the whole need concept from kindergarten to college I think is going to have to be reevaluated because the problems of administration, the inequities involved in it are going to be greater and greater every time.

Mr. O'HARA. We are going to recess to answer the bells, but I want to give Mr. Lehman something to think about while he is walking over and back.

In a speech in Portland, Oreg., a couple of weeks ago I advocated at least 2 years of free education after high school.

Mr. LEHMAN. I am with you.

Mr. O'HARA. So we can think about that. We will be back in ten minutes.

[Recess.]

Mr. O'HARA. The committee will come to order.

I would like to resume the session by noting the presence in the room of the newly confirmed Commissioner of Education, Mr. John Ottina.

Commissioner—you are no longer the Acting Commissioner, and I wish to express on behalf of all the members of the subcommittee our congratulations on the confirmation of your appointment.

Mr. OTTINA. Thank you very much.

Mr. DELLENBACK. Mr. Chairman, I would just add a word, too, because I think this is really a significant action by the other body. They are finally getting through their convolutions and delays that so frequently characterize the other end of the Capitol. We do congratulate you.

Mr. O'HARA. Thank heaven we are not subject to that. [Laughter.]

Mr. DELLENBACK. Oh, yes.

Mr. O'HARA. We were in the middle of a very interesting discussion of some of the problems that the guaranteed student loan program has faced at the time we recessed and were so rudely interrupted by some lonesome character over on the floor of the House.

Mr. DELLENBACK. We have another comment someone would like to make and the bankers I haven't heard from.

Mr. PURDY. Yes. I had previously given my name as Alan Purdy. I would like to state one other credential, namely that I have two children in college. [Laughter.]

Also, I have already graduated two, and I feel very much middle income.

I do want to congratulate the committee and its staff for the, I think, very comprehensive report brought in from the field. As we would say in Missouri, we are for it 1,000 percent. [Laughter.]

Mr. DELLENBACK. Does that conclude your testimony? [Laughter.]

Mr. PURDY. I want to make one further historical observation, that as the financial aid program has developed, we did indeed come to the place in 1965–66 where we felt there was a need for some assistance to the middle-income group. Now, how much assistance is given, of course, as you know, has been debated every year since then.

I feel it is the congressional intent that we not forget this group. How much money is to be spent on it gets down to a philosophical problem. It is almost like how much unemployment is acceptable.

Now, our society has to face questions like this. I think we have swung the pendulum and right now we are feeling a squeeze that perhaps the pendulum has swung a little too far toward making credit too tight for this group who, indeed, need a source of credit right now.

Mr. O'HARA. Thank you, Mr. Purdy.

I wonder if our friends from the American Bankers' Association would like to comment on the discussion we have had and the findings of the staff.

Mr. JAYNES. Yes, Mr. O'Hara. We have been trying to poll our membership across the country. I think we find a great deal of similarity between our findings, both verbally and by a questionnaire and Mr. Harrison's findings.

We are in the throes, still, of a survey that I think we will be ready to produce for this committee by tomorrow or the first part of the week. This was initiated at the request of the Senate Education Committee. They had asked us a few questions, and consequently we had started our questionnaire for them.

A couple of the things that have come out of that survey, although they are preliminary in nature, I would like to share with you at this early date.

From a sample—it is a random sample we feel out of our 14,000 membership—that consists of about 2000 banks—of that membership we find that the loan demand among our membership appears to be approximately 20 percent down from the previous year.

We do find some modest increase in the amount of each loan that is now being made. Obviously the change in the amounts allow that. So there is an increase in the individual ones.

We find that, in response to whether banks at this time have funds available for an influx at the latter part of this month in preparation for possibly an onsurge of loans coming up in August—for the most part we find that the banks are prepared to handle the influx that they expect.

Whether that is more than—whether it is actually more than they expect or not, it is difficult to tell at this time.

We have identified the fact that anywhere from—well, approximately 20 percent of our bankers indicate that there are problems in the system, that there is probably backlog of applications.

I think they are not aware of some of the ramifications of the need tests. I think they are concerned about the needs test. But in essence the banker has really been taken out of the approval and credit granting situation here.

The banker who has—or any lender, and banks represent 72 percent of the volume outstanding now—the credit man who processes these loans, who is instructed or taught how to make loans, really has no authority to do that. His real decision now is "Do we have enough funds to handle the demand," and can we do it economically so it is not a loss leader. And I think those are the principal problems.

As the committee addresses this issue I would say do not sell the credit man short, the man who has done this all his life or intends to do it for the bulk of his life, bringing the credit man back into the program in some way.

I think at the present time the financial aid officer is making the bulk of the decisions. Because of that, along with the wisdom of the Congress in establishing the need test, I think you will find many bankers are not really interested in trying to change the requirements or the prescribed requirements that now exist.

We are really a house divided as to what is our solution. We have some bankers that realize a change in the needs test could possibly unleash a new inflow of applications. I think some bankers do not find that particularly desirable at this moment. I think others feel that they have made loans in the last month or so in preparation for this new academic year, and if the rules are changed what must the banker do to go back and help out the John Jones who only qualified for the $275 loan last month? What do you do with him?

The bankers are concerned that no matter what occurs, we can't win. We are going to be the fall guys probably for the problems that will be resulting.

We find it is a rather difficult position.

Mr. O'HARA. I would like to just ask you one further question. This OE bulletin to lending institutions dated July 23 which states in the third paragraph, "It must be emphasized that the sole purpose of the school's recommendation is to help determine * * *"— and the fourth paragraph:

> Furthermore, lenders may make a subsidized loan in excess of the school's recommendation, including a zero recommendation, provided that the lender has reason to believe based on his specialized knowledge of the family's financial situation . . .

and so forth and so on.

> Where the lender makes a subsidized loan that exceeds the school's recommendation the lender has, in effect, adjusted the expected family contribution and they should indicate in their files the basis for doing so.

Well, you had indicated that you felt that the procedures in effect this year took the lending institution out of the business of making such judgments. Do you feel that this clairification that went out to lending institutions will put the lender back in the business?

Mr. JAYNES. I personally, Mr. O'Hara, do not feel that that is a mandate to look closer than the bank is now doing. We have found evidence in some banks where they are very attentive to the individual family needs. Large metropolitan areas, however, that handle large volume of loans, find that difficult to do.

I think many of them have to establish a policy of some sort to handle the volume, and to serve their customer the best they can, staff-wise, money-wise, so on and so forth.

I think it is encouraging that they should be reminded of this. I don't really see where that is going to make a terribly big change.

We also have some other examples, though, where—once again let me use the example of a $275 loan, where this is the recommended loan.

Bankers recognize that that may not suffice so they have really been making, then, once again, the $1,000, $1,500 loan, on an unsubsidized basis.

We have found a modest increase of this. It is not something I can give you statistically, but by implication, from talking with bankers, we feel there is a slight increase in the non-subsidized loan in order to avoid some of the problems, particularly of the students who had previously qualified for subsidized loans and do not do so now. They are supportive of the students' need through graduation and they will try to handle it the best way they can.

Mr. O'HARA. But aren't you really saying that when we change the program to one where a needs analysis was required that you were able to live fairly well with the old program in terms of the subsidized loans and the $15,000, and you had quite a bit of discretion as to how much you would loan in terms of a subsidized loan, and then—or you would be able to live with a system that gave you a different kind of a guidance, maybe a 15/15 system that simply said "Okay, $1,500 if you are under $15,000, and without checking need," but when it got into a question of a need determination that somebody else makes, that you would have to, in effect, vary or find unsatisfactory for some reason before you went beyond the amount found to be needed—that that put the damper on your doing so. Some will do it but for the most part——

Mr. JAYNES. The banker really does not get the information of the needs test.

Mr. O'HARA. Not only that, but when the loan comes, this sheet of paper that says, "All right, now, the need has been determined and it is *x* dollars," that you can tell him all you want that he can make a separate determination of his own, but he is reluctant to get into it because he is afraid someone will come along later and shoot him down and say, "On what basis did you determine there was a need in excess of the need found under this well-established formula by someone who is an expert"?

Mr. ZUVER. Mr. Chairman, besides the financial aid officer having all the data before him, I think that the—in answer to a question raised by Mr. Huber earlier—I think probably the person making the loan in the bank is not middle management, he is certainly lower middle management. He reports to somebody else. He is going to be critical of any change.

I think that if we can agree on anything—there would normally be 14,000 opinions from our banks on what should be done with this program.

However, we can agree on one thing, that there has to be a different needs determination for a student who receives a grant as opposed to a student who borrows money and is going to repay it.

I think that was one of your first suggestions, and a number of bankers have also suggested this.

Mr. O'HARA. About a change in the law, it has been suggested to us that some people have said "Oh, for God's sake, don't go changing anything now. If you change, it will throw—here we are nearing the finish line, we have a month to go, and if all of a sudden the rules are changed"—I don't know, some say that would be okay and other say it would not.

Mr. JAYNES. I would say from the lender's standpoint that the lender probably would not prefer to have it changed until after the opening of the academic year, possibly the second quarter or something like that.

We feel we are going to be subject to criticism by public, the students, the schools, the Congress. It is just a tough thing to change, I think, while we are so close to the beginning of this academic year.

Mr. O'HARA. Mr. McCabe, I know you have found the discussion interesting. Do you have anything—it doesn't really directly involve your responsibilities.

Mr. McCabe. Not immediately. It occurs to me, though, Mr. Chairman, in listening, that maybe we can bring a cheery note to your session.

Mr. O'Hara. I would like to hear one. [Laughter.]

Mr. McCabe. There are a lot of parts to the problem, and we are not wise enough to know the answers to each, but we do think one part of this difficulty is lender liquidity, and this, of course, is what the Student Loan Marketing Association was chartered to respond to. We are within a couple of days or 2 weeks, I would guess, of entering into the money market in a rather substantial way.

Just expanding on my prepared statement ony to this extent, I would say that we do expect that we will have a major impact on the liquidity problem, and that we will bring some major element of relief in this regard to lenders in time for this school year.

I would not want to speculate right now on numbers, because while we are not subject to the ordinary regulations of the SEC Act, nevertheless we do want to be careful and not project too far.

But I would like to be as helpful as we can in giving you some area of the ballpark in which we hope to function. We are currently under the leadership of an underwriting team of Lehman Brothers, Merrill Lynch, Solon Brothers, and Morgan and Stanley.

We are in the process of going into the market with something in excess of $100 million in Sallie Mae's securities.

We feel very promptly after we have accomplished this, which should be in the next 2 weeks or thereabouts, we will be able to leverage that fund and then have substantial other funds available to those banks and other lenders who in turn must deal with the student.

That, in a nutshell, I think, is the hopeful, encouraging word we might leave with you this morning.

Mr. O'Hara. Thank you. And I recognize your hesitancy to go into any greater detail than that, although I must say you have given us more information than the American farmer got about the Soviet wheat deal. [Laughter.]

Mr. O'Hara. Of course time is of the essence here, but you are hoping to be—I wonder, is there any awareness on the part of the banks of what——

Mr. Jaynes. Oh, yes.

Mr. O'Hara [continuing]. Of Sallie Mae?

Mr. Zuver. We have been waiting since the education amendment of 1972 for this, and hoped for it in 1968.

Mr. Jaynes. That has been one of the principal things we have supported and pursued for a good number of years before your committee.

Mr. O'Hara. Do you believe that if the sort of action that you have heard mentioned here were to take place in the next couple of weeks with the appropriate follow-up on that, that it would, indeed, free up some—increase the volume of loans in the last few weeks?

Mr. Zuver. I don't believe so. I think that we are still talking about the problem we have with that needs test. I think bankers would be delighted to see Sallie Mae purchase the paper from them. But I don't think this is going to make a dramatic change in the present program.

I think everybody has come to the conclusion that the needs test seems to have put the plug in the pipeline. I don't see how Sallie Mae would improve it greatly, given the present problem.

Mr. JAYNES. I think once they start in, though, I think other banks will be—some banks would be encouraged to enter the market where they may not now, or where they feel they have dedicated as many assets to the program as they can——

Mr. O'HARA. I think there are some banks that say, "Well, look, we have handled our share of this demand, and we don't want any more of that," you know.

Mr. Payton?

Mr. PAYTON. Mr. Chairman, one comment. I have to appreciate the statement Chuck made in regard to Sallie Mae. I think within time it would help ease the liquidity problem—that is, the turnover of money. Banks would like Sallie Mae to warehouse and purchase some of the paper.

I don't believe—and I agree with Chuck, here—that it would have any effect upon the volume of loans being made to students immediately or anything that you could really put your finger on within the next year or two.

It would sweeten the situation in the sense that it would restore a liittle bit of confidence to the banker that this is going to come about, and that they can continue, at least, with what they have been doing in past years.

Chuck, again, hit the nail on the head when he said the problem goes back to the needs test. Now, this needs test, or the current situation, let's call it that, is, as a matter of fact, causing us to lose lender good will. We are losing some participation of lenders in total. They are cutting off. Among other lenders we are losing the volume of participation in that they are cutting back.

What I am saying, Mr. Chairman, is that the needs test in the current situation has put a mighty bad taste in the lender's mouth. The longer we wait without taking action, the more serious this problem will become. This is why we urge you to take action before the congressional recess.

With all due regard to Mr. Jaynes, we are convinced that help is needed before the fall school term opens, not during the fall or by January. Students need it now and I would like you to bear in mind that last year Congress acted in a period of 72 hours, I think, and it immediately cleared up the situation. The pipeline became unclogged.

Now we hear the argument, "Well, if you change it, it would create confusion." Mr. Chairman, our banks, the lenders, don't want change that brings about a new wrinkle.

But our bankers, once they understand what change we are talking about, namely the 15–15, in our conversations accept that change because it is not a new wrinkle, it is a change to go back to what we had before.

One other point, if you would allow me to make it. The confusion that is so paramount today is with the student and the parent in their home town who walks into the bank and says, "Will you make me a loan?" Last year he could give him an answer. "If your income is under $15,000, we can do it." This year, Mr. Chairman, he can't tell him. He says, "You can apply and you can fill out the paperwork. Some of the paper goes to Princeton, some goes here and some goes there, and then if the aid officer over at the college tells us we can make a loan, then we can."

The bankers, Mr. Chairman, are now in a state of confusion because for the first time they are unable to look their customer in the eye and say, "Yes, I will," or, "No, I won't." He says, "Well, we will have to wait and see," and it will take you six weeks to go through this.

Now, that confusion would be eliminated by this change, and this change is going back to what we had before, not something different. Therefore it would be readily understood, and with a one-paragraph memoranda, Mr. Muirhead could make it very clear to the banks now that under $15,000 are eligible with no strings attached and no qualifications, and no documentation.

That is all.

Mr. O'HARA. Carol?

Ms. WENNERDAHL. I think with respect to our lender participation and the view that they hold of change, at least of the lenders I have talked to, I really regret to support a couple of observations that Bob made. In the one or two instances that I found that a lender was not ready to support a change, it was for the reason that he was satisfied with the decrease of pressure that was put on him for increased loan volume.

The needs analysis procedures gave them a convenient excuse, if you want to call it that, to do what they have wanted to do for a long time now. I regret that we have provided them with that excuse, and I would think that a removal of this excuse would, for a large part, see a restoration of participation at the same level that we have previously enjoyed.

Mr. O'HARA. Of course, you would have at least this problem, wouldn't you—you know, even assuming—and you are very persuasive, and Mr. Payton is very persuasive—but let us assume that when Mr. Ottina and Mr. Muirhead mount their horses and head back for HEW, that a bolt strikes them on the way and that when they arrive back there, they jump right onto the mimeograph and start grinding out announcements that 15–15 will be the order of the day.

OK, now let's just assume that. Today is the 26th of July. Even if they had a nonstop mimeo, they would have a hard time getting the stuff out before the end of the week, and then they would get it out and it arrives next week, and you people are busy notifying your contacts at the same time.

But, you know, it is getting kind of late in the day, and then it seems to me one of the real problems is, what do you do about the, I assume, tens of thousands of kids who had made application under the needs formula system, and who have been told that they had a need of zero, and, "That's tough luck," or who had been told that they had a need of $207, and that is how much they were loaned?

What do you do in terms of the equities with respect to them?

Ms. WENNERDAHL. I agree with you that a certain amount of confusion is unavoidable in something like this. I would only like to remind the chairman that our lenders and our schools have had a practice drill on this operation already, and that occurred last year only two or three weeks before school opened and permitted us to get funds to hundreds of thousands of students whose applications were clogged in the pipeline, in order for them to pay tuition on a timely basis.

In a way, prompt action by the Congress now would give us four more weeks than we had last year.

Mr. O'HARA. Well, prompt action by the Congress is a different thing than prompt action by the Office of Education.

Mr. DELLENBACK. We are not sure which way that is meant. [Laughter.]

Mr. O'HARA. Well, it is meant several ways. Next week is the last week that we are going to be in session until after Labor Day. The only way I could see that you could possibly get a bill up in the House of Representatives between now and recess would be on the consent calendar. And the only way you could get on the consent calendar would be somehow or other to have a meeting of the Committee on Education and Labor between now and Monday morning, or—well, tomorrow.

You would have to have a meeting of the Committee on Education and Labor tomorrow to report out a bill, and then you would have to get unanimous consent within the committee, because we couldn't comply with the committee's rules with respect to 2 days having the bill before them, and so forth and so on.

We are not going to be in session tomorrow. We know that. That was announced a week ago. We won't have a quorum, therefore, to begin with. The consent calendar would be called on Monday. And then if one guy objected, you would be out of luck. And then there is the Senate.

Mr. DELLENBACK. Mr. Chairman?

Mr. O'HARA. Yes?

Mr. DELLENBACK. It seems to me one thing that is very important to get straight on this particular issue, because I've gotten contrary interpretations floating back and forth on this, is first of all whether legislation would be needed.

Now, may we ask Dr. Muirhead, what does General Counsel say so far as whether or not, if one were so minded in O.E., you could go to a 15-15 without legislative changes?

Mr. MUIRHEAD. We could not.

Mr. DELLENBACK. All right, that is the base. And there has been some imputation that it could be done by regulation. But it is the ruling of General Counsel that you would just not do it under these circumstances.

Mr. MUIRHEAD. We could not go to a 15-15 proposal that would automatically provide a loan of $1,500 without a financial means test.

Mr. DELLENBACK. I understand. I am not trying to make a judicial determination of this because there is a difference on the part of some of my colleagues on this particular point. I am just asking whether or not under this set of circumstances, assuming that those with the responsibilities in O.E. were to say, "We want to go to a 15/15," you would run, as I understand it, right into a legal roadblock within HEW with the word coming down from the Secretary, from the Counsel by way of the Secretary, "You can't do it without a change in legislation."

Am I correct?

Mr. Muirhead. You are correct. That is precisely what the—

Mr. Dellenback. I am not arguing the pros and cons of the ambiguities of the legislation or the report which I have before me and just reread. But the point is that this is the way the legal situation is.

All right, then we go to the matter of legislation. And I think the point that the chairman of the subcommittee has made on this is something that all of us, however we are minded on this particular thing, whatever our own inclination might be as to what we would or would not like to see happen, should keep in mind. I think the process of legislation is just such that there isn't the chance of a snowball. that we—walk the road of the subcommittee action, the committee action, floor action in the House, the same series of things on the Senate side, and signature by the President by the end of next week.

Now, you see I am not arguing whether or not it is desirable at the moment, I am just saying this is, I think, the analysis that the chairman of the subcommittee made when he said, "The Legislative situation is this."

I don't think we can do anything but waste time talking about action before the end of August. Office of Education won't move on its own, and the Congress cannot move within that period of time.

We are therefore face to face with a situation in which the only question that we can really get valuable input on is not, should the Congress not legislate before the end of next week, but should the Congress talk about legislating in September when it comes back, or in October, after it gets back, and what will that do to the lenders, to the guarantee agencies, to the financial aid officers, to O.E.? Because understand that the process doesn't even stop with legislation.

Mr. O'Hara. That's right.

Mr. Dellenback. As we know full well. What we are talking about is not legislation versus administrative action, we are talking about the two together. Dr. Muirhead, Dr. Ottina can't move until the Congress has legislated, and once the Congress has legislated, they then start with reasonable expedition, and we have, on top of whatever the legislative time is, a number of weeks or months before new regulations could be prepared.

You can talk about it being so similar to the past, that they could go back to the old regulations and I would suspect that they would have to.

Mr. Ottina. That would be hard to argue with, if you would change the law.

Mr. Dellenback. I don't mean to create any further difficulty by what I am saying. I am just commenting on my analysis of the situation. and the greatest value on this particular point that can come from this very valuable and much appreciated input of information across the line is the discussion of real possibilities, not the discussion of hypotheticals which are not really within the realm of the possible.

Now, with that declamation, may I ask a few questions, Mr. Chairman?

Mr. O'Hara. Please do. By the way, I might say that I am prepared to skip this quorum, if you are willing, Mr. Dellenback?

Mr. Dellenback. I would suggest that we go right on, if it is agreeable with you. Now, that is a sacrifice. We are shooting down our attendance record just because we think this is of sufficient importance.

Mr. Jaynes, I could begin anywhere, but let me start with this, if I may. What did you mean by your statement, you think we ought to bring credit men back into the picture?

You have said that whatever discretion has been written into the law, you don't want to exercise it. We are not talking about the present law not giving you authority to do it, because I think there is authority in the present law for you to do something.

I am not quarreling with your institutional decision not to exercise that authority. I can understand that. But in the light of that, what do you mean by "bringing credit men back into the picture"?

Mr. Jaynes. First of all, I should qualify it as a personal observation, as a credit man once upon a time. The banker still does not have access to the full record of the family statements unless he really seeks them out. On many of the application forms he gets the report, the recommendation, and he doesn't have all the supporting documentation, sometimes.

Mr. Dellenback. So if I may amplify on that a bit, to make the exercise of discretion or to exercise discretion as it is given to you in the statute, you would feel that you would need a good deal more information of the data that is available to the financial aid officer, before you would really be able to make the comparison?

Mr. Jaynes. A prudent credit man would probably look beyond what he is given in family financial statements, possibly credit ratings, so on and so forth, as it may apply. So he does come back into the system, but he has to go beyond what is normally requested in routine matters in order to find out what he needs to make that decision.

And if he were privy to it all initially, and maybe even making the decision initially rather than asking somebody else to make his loan decisions for him, I think he may respond to the problems better.

Credit judgment, in my opinion, seems to have been withdrawn from the credit banker or from the lender.

Mr. Dellenback. In this program?

Mr. Jaynes. Yes.

Mr. Dellenback. What would you have us do in the way of changing the law to bring you back in?

Mr. Jaynes. I really don't think I am prepared to make an analysis of this. I think that, once again, as Ms. Rice said, a major review of the program in its entirety probably is needed there, and I would hope that lenders—all types of lenders—would play a part in this deliberation and try to find a solution, contributing their fair share.

Mr. Dellenback. Is it not so that a number or some of the lender institutions in effect asked the applicants to fill out their own credit application in addition to what comes through this process?

Mr. Jaynes. That is difficult to say. There are so many involved. Maybe everybody has their own policies. If they do not receive the information in the normal system, I would assume that they would ask questions beyond it, and that could be possible.

Mr. Dellenback. I would like to make a request, and I would hope that the chairman would join in it, that you have your people take a look at this picture as we now try to come to grips with what ought to be done, not in the sense of just slapping another patch or two on, but by really saying, "Look, what is it from the standpoint of the student, from the standpoint of the Office of Education, from the standpoint of the financial aids officer and the agencies that are involved and the lenders and all who are concerned," as we really try to say, "How should we restructure this program?"

We would appreciate the input as to where you think this very critical lending responsibility ought to be led or directed, or how we ought to work with it.

Mr. Jaynes. I am sure we would be most happy to cooperate.

Mr. Dellenback. Then may I go to the other question that I would ask of you off on the periphery of this thing. We have just touched a little bit on the nonsubsidized loan. I don't, again, ask for a comment in depth at this stage if you don't want to make it.

The question I would put to you, though, and I hope that you could think about this in giving us information, is what would have to be done to the nonsubsidized loan program to make it attractive to you all? Because it seems to be uncontradicted that not only at the present time is it not being used extensively, but it really hasn't been used extensively in recent years.

This was one of the questions the chairman asked and brought out earlier.

Mr. Jaynes. I am sure a more in-depth study is needed there. But if I may, I would make a personal observation that it is really a more expensive type of loan to make by the lender. Rather than accumulating a single transmittal and billing the Office of Education at one time for interest subsidies, the nonsubsidized loans have the requirement that the institution would bill the student periodically and consequently if you have a great number of these loans, these are many billings, so it is an operational expense.

The operational expense accelerates in this type of program, and the yield does not, so it is a more expensive operation. I think that would be one deterrent.

Mr. Dellenback. Looking at it from the standpoint of the Congress as we have tried to put together the structure of what we see in the way of student aid, we see the progression from the supplemental educational opportunity grant to college work-study to national defense student loans to the subsidized guaranteed loan to the nonsubsidized, and it is in the totality of this that the financial aid officers must deal constantly; that as each individual student comes in, they try to make the amalgam or the mix that will best take care of that student.

If, for practical purposes, we have found and do find that the guaranteed but nonsubsidized loan really isn't part of the mix, then we all ought to know that and either you strike it from the list of things we even talk about, or else we ought to try to amend the law to the degree we need to to really make it an effective tool.

So I would appreciate it, again—and I would hope for the concurrence of the chairman—that we might make a request of you for your thinking on this particular one, that you might bring it back to us.

Mr. **Jaynes.** Fine.

Mr. **Dellenback.** I would like to ask Mr. McCabe one question very briefly. And I don't mean to be at all skeptical about this, I am just asking.

Do you anticipate any difficulty at all in raising that initial capital?

Mr. **McCabe.** We do not.

Mr. **Dellenback.** You do not, good. I think it is important, because if anybody is going to lean on this, it is not only important to you but it is important to us, and it is important to the students and it is important to the bankers, and you anticipate that this will go smoothly within the next couple of weeks.

Mr. **McCabe.** Yes.

Mr. **Dellenback.** May I ask Ms. Edwards, you have had a chance to look, but only briefly, I suspect, at this publication from OE, to all student financial aid officers that Dr. Muirhead referred to earlier.

Does this lay to rest the apprehensions and confusions on the exercise of those seven codes that are involved in filling out form 1260?

Ms. **Edwards.** I am afraid I don't have a copy of it.

Mr. **Dellenback.** What I particularly referred to——

Ms. **Edwards.** Mr. Purdy has read it and he thinks he can answer it.

Mr. **Dellenback.** I will ask the question of Mr. Purdy in that form. Does it lay to rest the apprehensions?

Mr. **Purdy.** Our written testimony actually speaks to that point for this reason. As you recall, in the report of the staff one of the reasons we do not get more departure from the stated needs test has been a fear of audit, in which we would then be accused by the auditor of using an insured loan, if we are using it in conjunction with one of the other amalgams that you mentioned, that the auditor would say, "But you have permitted a total amount of aid here in excess of the firm needs figure as shown on this program. Therefore, the audit exception would be that the institution would then repay to the Federal programs, part of what this student has used here."

Now, these audits have actually occurred in a number of places, and our institutions, these presidents for whom we work, really don't want us to get their institution or our institution involved in a situation in which there might be a question.

Now, the wording here is that of "reasonable documentation." Well, what is reasonable? And this, of course, would then get down to a discussion: Does the auditor consider our judgment reasonable? If he did, we would be fine .If he didn't, our institution would be in trouble.

Mr. **Dellenback.** Excuse my breaking in but there isn't any question that the financial aid officers want the goal of being able safely to make raises they think are justified in computing what is need. And you want to be able to go ahead in this direction.

The Office of Education is anxious to do all that they can to make clear that you have the discretion in the law, and they not only encourage but the word was "strongly recommend," in this last document which was put out.

Now, what I am trying to do is to bring you together on this particular point, because every one of us wants this—the guarantee agencies want this—we want it very much. Here is a set of words, and what I want to know is, have these words done the job that OE intended them to do and that you want to have done, and that everybody else wants to have done?

And the language is, not only are you permitted to do certain things, and that is spelled out on page 1, but we "strongly recommend" that the financial aid officer exercise this option by doing certain things.

You have the seven codes, and the wording of the seven grounds for doing this are pretty broad. Let me at this point say how broad they are, and I am not quarreling with anybody; I am just trying to set everybody at rest so we can go forward from here.

I want to put the Office of Education on record on this particular thing so the financial aid officers can lean on it and rely upon it.

In this instruction that has come out from OE on this particular point, they talk in terms of "the amount listed in section 3(a) is more meaningful when adjustments for the individual circumstances of the student are considered. The financial aid officer is expected to exercise his professional judgment in each case and indicate in section 3(b) the amount that can be realistically expected to be contributed for educational costs over the period of the loan. He should take into account * * *" and here it spells out certain things, and goes on to this—let me read it." "* * * he should take into account geographic differences in cost of living, actual summer earnings, family circumstances and other factors not always equitably treated in a nationwide, standrdized computation. Indicate in the space provided the following code or codes for the reasons used in reducing the amount of the computed family support. (1) Reduction in income."

That is broad.

Mr. **Purdy.** No problem there.

Mr. **Dellenback.** "(2), death or disability of the wage-earner."

Mr. **Purdy.** No problem.

Mr. **Dellenback.** "(3), loss of job."

Mr. **Purdy.** No problem.

Mr. **Dellenback.** "(4), unanticipated medical or other extraordinary expenses."

Mr. **Purdy.** That isn't the problem.

Mr. **Dellenback.** "(5), non-liquid assets; for example, home equity."

Mr. PURDY. That is a real problem.

Ms. EDWARDS. You are getting to the problem.

Mr. DELLENBACK. There is one of the areas. That is one of the things that we know is a stumbling block in this computation. That is 5.

Ms. EDWARDS. Yes.

Mr. DELLENBACK. "(6), cannot meet expected contribution from income."

Mr. PURDY. That is a real problem.

Mr. DELLENBACK. OK. But the language is very broad.

Mr. PURDY. It is. It is so broad——

Mr. DELLENBACK. "Has non-liquid assets." That is very broad.

Mr. PURDY. Yes.

Ms. EDWARDS. Right.

Mr. DELLENBACK. And then 7. If everything else doesn't catch it, No. 7 is, "other."

Ms. EDWARDS. That is the real problem.

Mr. DELLENBACK. All right. "Briefly indicate in the space provided the basis for this reason," and so on and so forth.

Now, back to Mr. Harold's letter, the Acting Deputy Associate Commissioner for Higher Education.

After spelling out what it is you have the authority and are strongly recommended to do, it says, "If reasonable documentation exists, there should be no concern as to the exceptions that may be taken in the future by auditors."

Now, if I read you correctly, it is the fear of what the auditors might do and the consequences that would follow from what the auditors might do that is the apprehension on the part of the financial aid officers.

Mr. PURDY. Our apprehension of what is their interpretation of "reasonable."

Mr. DELLENBACK. OK. May we then ask from Dr. Muirhead or Dr. Ottina if they would tell us, what do you mean explicitly, succinctly, by those words, "reasonable documentation"—so that these people will go forth and blazon in the minds of financial aid officers, and rely upon, and come back and hang you by the neck with if it doesn't work out.

Mr. MUIRHEAD. Right. Let me first of all, Congressman, say to you that the language here is perhaps a little more courageous and a little more noble than the Office of Education ordinarily uses. We are saying it in quite unequivocal terms, that if you do provide documentation surrounding the codes that we have suggested—and they certainly are broad—that if you provide that, then we will support that documentation when an auditor comes before you.

Now, we cannot, and we do not, predict what the auditor is going to find. But you should know—that in the audit process—that the auditor makes a finding and then it is submitted for our review.

We would then support what we have promised to support here by saying that the student financial aid officer has provided the documentation, and that this does not then become what in the auditor's language is an exception.

Now, I guess the things we have to share with you is that the original audit finding does not become the basis for action. It has to be reviewed, and we would review it. Here is where we would back up with our actions what we have said with our words.

Mr. **Dellenback.** All right. Now, if the financial aid officers were to have in their documentation the statement that, "We find that in the computation of need of student x, they have taken into account the liquidation of non-liquid assets or contribution from non-liquid assets, we therefore have eliminated those non-liquid assets, and, on the basis thereof, raised the expectation of need to such and such a figure," is that enough?

Mr. **Muirhead.** We would expect—and "reasonable documentation" I think means what it says.

Let's take the example that you have, that they were not going to tax liquid assets in determining the family contribution.

Mr. **Dellenback.** Non-liquid assets.

Mr. **Muirhead.** Non-liquid assets. Then we would like to have them say so and give us some indication as to the amount that was involved.

Mr. **Dellenback.** If they then say what I have just quoted, and add to it some data, say they included non-liquid assets in the amount of $72,000 or $27,000 or whatever the figure might be—"these are indeed non-liquid assets, and therefore we have stricken them from computation." Is that enough?

Mr. **Muirhead.** That is enough. And, you know, I want to make it perfectly clear, here, that——

Mr. **Dellenback.** That is as catchy a phrase as "we will back you 1,000 percent." [Laughter.]

Mr. **Muirhead.** All right. Thank you.

Mr. **Dellenback.** Excuse me. Go ahead.

Mr. **Muirhead.** We are saying to the student financial aid officer what we have always said. The student financial aid officer is not sitting there at the end of a computer. He is expected to apply his professional expertise to this job just as he applies it to determining financial need on S.E.O.G.'s, on college work-study, on NDEA.

We want him to apply the same expertise here. If he documents it, then we will support it. I think I have to turn a little bit back to you, Mr. Congressman, however, and say that we can deal, I think, quite effectively in carrying out our responsibilities here with the HEW auditors, but there are another set of auditors, and they are under the heading of the GAO auditors.

We would ask the Congress to perhaps use their good influence on the GAO auditors to see that they are exercising the same rules of the game that HEW will be expected to exercise.

Mr. **Dellenback.** As one Member of the Congress and as a deeply concerned one, I intend to talk to the chairman of our subcommittee and see whether jointly, once we know explicitly what we are talking about here, and what HEW's auditors will do, to discuss with GAO whether or not they will concur in that particular action.

I think that it is important. I can understand the institutions involved, and the individual financial aid officers involved, and their reluctance to put their necks out unless they know exactly what the underlying grounds are.

This is what has reflections on the statistics which concern us so deeply, and this is what the bankers have told us is the base beyond which for practical purposes they are not in a position or ready to go.

So right here we are to the type of crucial discretion that you either will or will not exercise, and what I'm trying to do is to nail down here as much as we can as to what you need.

Now, is that helpful, Mr. Purdy?

Mr. PURDY. Yes, this is very helpful, again, on one point. Now, let me ask the subcommittee—and going back to Don Payton's presentation of the problem and the problem we deal with in congressionl intent, and the question of the middle-income family.

Forgetting the family with assets—they have none. The father is working, the mother is working, and all their income is current income. So we have no problem with that. And yet with the mother working and the father working, there is $14,000 or $15,000 income, three children in the family, say—with the needs test of the American College Testing or College Scholarship Service, it is shown that the contribution from family income should be $1,000.

In this case there has been no real illness, there has been no emergency, except inflation. And the boy says, "Dad hasn't got it." The dad says, "I haven't got it."

Now, is it reasonable for us to recommend that an insured loan be used in lieu of what the computer said was a required family contribution? Now, to me, right there is the kernel of the nut.

Mr. DELLENBACK. May I say that as I would read these six codes—and let me state this, and then turn to Dr. Muirhead for comment—that you might lean on No. 6 here.

Mr. PURDY. Yes, sir, all right.

Mr. DELLENBACK. "Cannot meet expected contribution from income." Is that correct, Mr. Muirhead?

Mr. MUIRHEAD. That is right.

Mr. PURDY. Let me ask Dr. Muirhead, for the record, if we check that, is that the only documentation we need?

Mr. O'HARA. Let me make a suggestion there, before we go into that.

First, with respect to item No. 5, non-liquid assets, I think Dr. Muirhead could well say, "No documentation will be required if item No. 5 is needed," because right when you compute a needs analysis, if you do it by one of the accepted standards you run in their residence equity, other real estate, business or farm, other investments, you know. That is sort of apparent on the face of your worksheet.

And with respect to reason No. 6, which Mr. Dellenback is getting at and Mr. Purdy is asking Mr. Muirhead about, would it not be possible, Mr. Muirhead, to simply say if the family has an income of less than $15,000 and the loan does not exceed—the need found does not exceed $1,500, no documentation will be needed if the reason given is code No. 6?

Mr. MUIRHEAD. Mr. Chairman, I respectfully ask, was that the purpose of Congress in making the amendment to the guaranteed student loan program?

Mr. O'HARA. I wasn't part of that conference, Mr. Muirhead, but I have sat down with the paper that ended up getting approved or being the basis for the draft of the conference report that came out, and it started off—the first proposition in that settlement that helped to create the conference report was that need is assumed if the family income is less than $15,000. I mean, bango, that was the first proposition, there.

Mr. **Dellenback.** I think you are hung up, Dr. Muirhead, as you realize, on variant congressional opinions as to what was congressional intent out of 435 House Members, and you look to the language of the report itself, and we find that the language was good compromise language which reached across the line and brought in some statements from all sides of the issue.

Mr. **Muirhead.** We have interpreted it——

Mr. **Dellenback.** That left it a little vague, I think.

Mr. **Muirhead.** We have interpreted it in quite a straight-forward way, I think. We felt that the intent of the Congress was to loosen up the guaranteed loan program for those above $15,000, because, in many cases, they could make a case that the cost of education was such that they should get a subsidized loan.

We have interpreted the words of Congress, too, that subsidized loans should not be provided for those under $15,000 if it was not needed to pay for the cost of education.

Now, if you are saying we should interpret it to mean automatically that that need is there for those under $15,000 provided the loan doesn't exceed the cost of education, then that seems to me that is a very different interpretation than we have placed upon it.

I respectfully call your attention, Mr. Chairman, to the fact that we have two loan programs, and if we were to interpret——

Mr. **Dellenback.** This time they don't just want our company to drift in and out, they want us to vote on something.

Mr. **O'Hara.** Could you withhold for just a moment?

Let me ask, I know the witnesses have other fish to fry. But I am hoping it would be possible for as many as could to remain. and we will recess the committee again and return as soon as we have cast our vote. All right?

Ms. **Edwards.** Of course.

Mr. **O'Hara.** But the committee will understand, and if you will just come up and speak to Mr. Harrison here, if any of you do have to leave. We appreciate the time you have given us. You have already given us much more time than we indicated would be necessary. If you could give us some more, we would appreciate that, too, but we would understand if you couldn't.

The committee will stand in recess.

[Recess.]

Mr. **O'Hara.** The subcommittee will come to order.

Just for a point of clarification on the matter we were discussing when we left—and that, as you may remember, had to do with my suggestion that we might say with respect to item 5, nonliquid assets, which appears on the face of the needs analysis, that perhaps no documentation would be needed, and secondly, with respect to item 6, that is, nonavailable— income not available for family contribution, with respect to family contribution, that no documentation be required if the amount of the need determined was less than $1,500, and if the income was less than $15,000.

And Mr. Muirhead asked whether or not that would agree with congressional intent and I mentioned some proposal on which settlement was reached in the conference.

Just as a matter of historical curiosity with respect to the proposal on which agreement was reached in the conference, I have it here before me. It was a typed sheet. It dealt with House receipting to Senate on item No. 115 with an amendment to provide for an affidavit, "See attached,", and 2 on 164,203, "Agree to the following: remove the $15,000 statutory ceiling for interest-free loans. Establish that everyone below an adjusted $15,000 income is in need." And then C—it isn't labeld "C", it is the third item—"Allow an educational institution to recommend that a student above $15,000 income is also in need."

So I am not so sure that we would be—you know, when you speak of congressional intent, that we would be departing from congressional intent.

Mr. Muirhead. Mr. Chairman——

Mr. O'Hara. And so forth. I mean, there are other items to this, but those are the ones that are pertinent.

Mr. Muirhead. Well, our interpretation of the statutory requirements—of the statute, itself, has been that for students under $15,000, that there should be some determination as to what the need is.

In specific answer to your question under No. 6 of the coded items where it says that, "Family contribution not available," we, of course, have listed those as suggestions.

If we knew all the circumstances, we would spell out others. But we are saying to the student financial aid officer, "If you use this as a reason, then you give us the reason." We were not saying that he automatically would be able to say that the family contribution is waived under the guaranteed loan program.

We are saying that he can use the discretion that we have emphasized, and as you may recall, Mr. Chairman, when we had this difficulty last year we came back and we agreed upon that particular provision, that we would provide the student financial aid officer with a flexibility.

Now, that flexibility means that he will look at the family contribution that the system produces and make a judgment as to whether or not that can be reduced. But the fact that we have coded No. 6 as "family contribution not available" doesn't say that automatically he can substitute a guaranteed loan program for the family contribution. It means that he can use his judgment in deciding whether or not that is a realistic family contribution.

Mr. Dellenback. Mr. Chairman, if I may——

Mr. O'Hara. Yes.

Mr. Dellenback. Let me make one more brief comment on the document and the agreement of the conference.

As I said, when I began this discussion I didn't mean to go back and plow all that ground again, because we cannot at this stage of the game, we can only make inadequate stabs. I would, however, add one more line that was in this document from which you, Mr. Chairman, were reading. That was the next one, which said, "The amount of interest-free loan is determined by the eligible institution and recommended to the lender."

Now, that has two very important elements in it. One, it is not presupposed that the amount will be the same for everybody. There is a variant amount expected under the terms of this which lends credence to the interpretation of some members of the conference that when one said, "Establish that everyone below an adjusted $15,000 income is in need," it did not say, "in equal need',' or, "in total need," but merely said there was need. It was to be expected that there was need at that stage of the game.

And then down below, "The amount of the loan is subject to variation." Now, I am not defending that conference, or that point. I think it is on that rock that unanimity of opinion is foundering, so far as what was meant.

And then the other very important point that is involved in that particular sentence is that the amount is determined by the institution. It is not determined by the financial analysis. We are not handing to the computer the authority to say, "Once you have come out with the figure, all shall bow down before it." It is a case of saying, "That is one of the inputs of very considerable importance," but it is the institution which makes the determination which is to be recommended to the lender.

And I think that is a very important aspect of what is here involved.

Lois?

Ms. RICE. Mr. Dellenback, I would just like to underline some of your last comments.

From some of the earliest discussion it would appear that the estimate of family contribution that I think there almost has been an explicit assumption here comes off the machine is engraved in stone. Not one of the needs analysis systems has ever contended that that was so. This fact should be communicated to the auditors, and to everyone else.

I should like to read a paragraph from the document that all the aid officers get who use the College Scholarship Service System, I quote, "The system treats most cases equitably, but the judgment of the financial aid administrator is dispensable [all in italics]. This judgment reflects experience in dealing with families of all types and their individual problems, as well as the individual and specific information that may exist. The financial aid administrator must always be the final authority in any system of needs analysis.

I think that is what needs communication to GAO auditors, to HEW auditors, and others.

Mr. MUIRHEAD. Sure.

Ms. RICE. The systems are not a public taxing device where parents are "required" to provide the contribution suggested by the machine neither are institutions required by anyone to follow exclusively what comes off the machine.

Mr. DELLENBACK. I appreciate not only the emphasis that you give to that, Ms. Rice, but I think also that it should be communicated to the auditors, and understood that this is what the law is in this particular regard, and this is what the regulations bear out.

There is no immutability in that determination that appears on the financial needs form. The law says this, the regulations are striving to say that.

I read Dr. Muirhead's letter, or the letter of Mr. Harold in this particular instance, as saying that, and we are talking about mechanics which will help to reinforce it. Now, once we have nailed down some of these specifics, as I say, I am perfectly willing to then raise the issue with the GAO, just to be sure that the financial aid officers, as they go forward to exercise this discretion understand that we don't mean to say, "Throw away the coeds, or do anything you want to do."

But you are dealing here with trained people, hopefully all across the board. Certainly many of them are extremely able, knowledgable, skilled people, and it is that judgment that we are leaning on here.

May I ask Dr. Muirhead a couple more questions which you can either answer now for the record, or give us something or later, if you will, because I think this would be important to the financial aid officers.

Mr. Muirhead. Sure.

Mr. Dellenback. One, so far as this "reasonable documentation" is concerned, can that requirement be met by informal notes made by the financial aid officer as he or she is on one end of a telephone inquiring about data on each of the component parts, the student not in the office?

Mr. Muirhead. Sure. Yes.

Mr. Dellenback. That is my first question.

Mr. Muirhead. Yes, certainly. However, we would expect the student financial aid officer to record it in his own files.

Mr. Dellenback. Not to tape it, but to make notes.

[Laughter.]

Mr. Muirhead. I am trying to forget that episode.

Mr. Dellenback. In this particular instance, if the answer is "yes" to that—and I think that is important because a financial aid officer is expected to have every student in his or her office—then you have a real problem. At least you now have the telephone opened up here.

If you ask the right questions and make the proper notes on the basis of those questions, we have been assured that that is reasonable documentation.

Another question, how about a letter from the student in which the student spells out his or her particular circumstances, and says, "There are the things that enter the picture?" Can the financial aid officer lean on that letter, and is that sufficient documentation?

Mr. Muirhead. Oh, yes. And there are many others.

Mr. Ottina. Excuse me. I don't think it would be sufficient to enter the letter. I think he has to acknowledge that he has accepted those facts.

Mr. Dellenback. But the source of the information can be the letter and then the financial aid officer says, "I have come to the conclusion on the basis of my acknowledge of the student, or on the basis of the information set forth in this letter that these are the facts," and then have made this determination? So that would be adequate?

Mr. Ottina. Yes.

Mr. **Dellenback.** Third, how about notes made by the financial aid officer after conversations with the lender? Sometimes the lender actually knows the student and the student's family better than the financial aid officer.

What if, in a situation, the financial aid officer instead of calling the student to get the data calls up the lender? Bankers often are very knowledgeable about these kinds of things, officer, but as Dr. Ottina just said, it isn't the lender who is making the decision, it isn't the letter that is the documentation, it is the financial aid officer writing in his or her files that, "After a discussion with Joe Doaks, so and so, I have concluded that," and writes out the thing. Is that sufficient?

Mr. **Muirhead.** There is no limit to the sources of information that the student financial aid officer can draw upon if he then makes sure that that is recorded in documentation in support of his decision.

He could write to the parents, he could write to the sick mother or the communication could be initiated from the parents or disabled relatives. But he has to—you know, he has to make a record of it in his own files.

Mr. **Dellenback.** May I then ask a fourth and last one, and this is the toughest one, in case you had any question about it. Can the financial aid officer make any sort of an across-the-board decision that would apply to all applicants? And I am not really quite sure what that might be. But the financial aid officer might say:

> We generalize and say that any time a student in our area is involved in transportation of more than *x* miles, it will mean that transportation expenses will be accepted as being so many dollars.

Now, is that kind of an across-the-board generalization—which, again, is the finding of the financial aid officer, so it is his or her documents——

Mr. **Muirhead.** In using the phrase, 'across-the-board," I think we have to be quite careful in that particular instance that there is the specificity to it.

However, if a student financial aid officer decided that he had a stack of guaranteed loan program applications and that he decided, "I am going to reduce all the family contributions by 30 percent across-the-board," that wouldn't be acceptable.

Mr. **Dellenback.** Let me give a better example, because counsel has just very soundly pointed out to me that I am talking about the cost side rather than the contribution side on this particular thing when I gave the example I did a minute ago.

But how about a generalization, for example, about number five, "nonliquid assets"? How about a general decision by the financial aid officer that on the reliance on number five, without calling the individual family up or talking to the individual student, they will determine that any asset which is in the form of a farm which is actually being operated will not be considered as an asset that ought to be taken into consideration for family contribution.

I am just making one up, you see.

Mr. **Muirhead.** That type of question I would like to consult with our counsel on.

Mr. **Dellenback.** All right, fine. If you could do that, and recognize——

Mr. O'Hara. Let me ask a question before we go to vote. What if, with respect to number six, "expected family contribution not available," the student loan officer is wrong? Now, let's say that the student who came in to him is the son of the president of the General Motors Corporation, and they are engaged right now in buying a Caribbean Island so they have decided at the moment that Pops is a little strapped for liquid money.

So the student financial aid officer categorizes that kid as number six, and he has a little documentation. He has a letter from the kid saying that, "At the moment our liquid assets are tied up, and therefore I am asking for a subsidized student loan," and the student loan officer okays it.

Now, he has documentation. Does that protect him from the auditor?

Mr. Muirhead. But he doesn't have documentation which is reasonable. We would not support that one.

Mr. O'Hara. That is what I mean, you see. I am not so sure that the documentation is going to save him, because you are going to come in just as our banker friends are worried about, you are going to come in and say, "Well, now wait a minute, here. You fellows blew this one. We don't agree with your decision."

Mr. Muirhead. I wouldn't have any difficulty with that situation. I think he blew it, yes.

Mr. O'Hara. And then as you work on down to the vice president and finally to someone who is a foreman in the Chevrolet assembly plant, then at some point there, you say, "Well, OK, it is reasonable." But to simply say that all you require is "reasonable documentation" doesn't really solve the problem of the student aid officer, I don't think, does it Mr. Purdy?

Mr. Purdy. Of course, you are talking about exactly the situation which we feel we face, and that is an interpretation of the reasonableness of what we are doing, and the judgment we express, because people do disagree with my judgment.

Incidentally, Mr. Chairman, I can document in my files exactly what you have just described. It didn't have to be made up out of supposition, because I have had requests from families where I knew the father was making in excess of $100,000 a year, but there was a family disagreement there, and the student wanted to not have to ask his parent. This is one of the things, you know, about what is "reasonable." We get into this problem of emancipation of the student beyond age 18.

Then there is one thing that I did want to ask for the record, Mr. Chairman. I want you to know that Dr. Muirhead and I have lots of conversations, and we are trying to find an answer here. Our professionalism works within their directives. That's as far as it can go.

Now, another question, I noticed in all of the letters that have been directed to us as directives, at no point has the word ever been used that it is "reasonable" to use an insured loan as a portion of the expected parent contribution.

Now, as Ms. Rice has said, the computer comes out with a figure, and we are supposed to put that figure down. Then we are supposed to put in anything else in there, and then if we actually recommend a loan which actually becomes a portion of that parent's contribution, that "expected contribution," is that reasonable, and to what extent? Could this be put in a directive to us?

This has been avoided, and I think maybe because—in all due consideration, Dr. Muirhead—maybe because of the lack of unanimity on what this program was to do for the middle-income family.

Mr. DELLENBACK. Well, Mr. Chairman, if I may call to the attention of the subcommittee one set of data which I have here, and then ask one question, rather than keep these patient and very helpful people any further after this one, I would be willing to call it quits.

Mr. O'HARA. It had better be a short question.

Mr. DELLENBACK. I would ask Ms. Rice this. To a degree, you approach this with objectivity that is somewhat greater than some of the rest of ours.

Would you favor, from whatever vantage point you have, the 15–15 law if we could make it effective now, making it effective right away.

Ms. RICE. As you know, Mr. Chairman, I was asked by Mr. Harrison to join this colloquy at about 7:00 last evening, so I want to underline that I am not giving any official position on this whatsoever, and not speaking for the College Entrance Examination Board.

Before we could make a judgment, we have to consider, as Mr. O'Hara has suggested earlier, whether the proposal (15–15) is equitable. For example, what happens to students who have already been given loans under the old scheme, compared to new students who would now be placed under the 15–15 proposal.

There are other problems of equity to, and I guess I prefer to make judgments on the basis of equity when Federal moneys or Federal subsidies are involved. What happens to the student who comes from a family that has $15,000 in annual income?

The contribution table, for 1972–73 suggests that this family could contribute $2,100.

Now, unless that student goes to an institution costing some $4,100 he couldn't qualify for a $1,500 subsidized loan, having virtue of more in annual income than the family with an income of $15,000 and below are concerns too about the relationships have of the proposal to the other loan program, the national direct student loan program. If a student, for example, with family income below goes to a bank and automatically gets a subsidized loan in the amount of $1,500, and his next door neighbor, who doesn't have good banking connections, can only go through the NDSL loan program, where he will most likely get a loan averaging $600 or $700.

I think these concerns have to be assessed. I will just close with one comment, that the $15,000 figure of an arbitrary figure in 1968. It is still arbitrary and the committee should understand that an adjusted income of $15,000, the family automatically qualifying for subsidy under the program is in reality a $2,000 family in terms of gross income.

Mr. O'HARA. I am going to have to go, and I am not going to keep you here any longer.

Let me say this. Those of you who now have some further comment to make, make it through Mr. Harrison, or Mr. Andringa, and really yell at them if you want to. That is what they are here for, now that Dellenback and I have gone.

Thank you very much. We will be back in touch with all of you informally in the next few days.

Mr. Dellenback. May I join with the chairman in expressing appreciation to each of you for coming. I have found this a very helpful session, and I hope it has been valuable from your standpoint.

[Whereupon, at 2:05 p.m. the subcommittee adjourned, to reconvene at the call of the chair.]

Appendix A.—Official Correspondence and Other Documents Relating to Student Aid Officers' Responsibilities Under the Guaranteed Student Loan Program

[COMMITTEE PRINT]

CORRESPONDENCE AND OTHER DOCUMENTS

RELATING TO

STUDENT AID OFFICERS' RESPONSIBILITIES UNDER THE GUARANTEED STUDENT LOAN PROGRAM

SPECIAL SUBCOMMITTEE ON EDUCATION

COMMITTEE ON EDUCATION AND LABOR

HOUSE OF REPRESENTATIVES

AUGUST 1973

Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*

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CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR,
SPECIAL SUBCOMMITTEE ON EDUCATION,
Washington, D.C., August 2, 1973.

Hon. CARL D. PERKINS,
Chairman, Committee on Education and Labor, Rayburn Building, Washington, D.C.

DEAR MR. CHAIRMAN: We are writing this letter to report to you, and through you, to the House and the student aid community on a situation which has arisen in the implementation of the 1972 amendments to the Guaranteed Student Loan Program.

As you know, the staff of the Committee has recently conducted a study, the Special Subcommittee on Education has held hearings, and we have exchanged letters with the Office of Education in an effort to meet some of the problems.

While problems clearly remain, we think we have achieved some improvement through these procedures, and we are happy to submit this progress report, which, with the approval of a majority of the members of the subcommittee, we request be printed for distribution.

I—THE PROBLEM

In the Education Amendments of 1972 (P.L. 92–318), the Congress changed the requirements for eligibility for interest subsidy benefits on Guaranteed Student Loans. Prior to the 1972 amendments, any student whose adjusted family income was below $15,000 could qualify for interest subsidies. After the effective date of the 1972 amendments, students whose adjusted family incomes were over $15,000 could also qualify for interest benefits, but, regardless of the size of the adjusted income, a needs analysis must be conducted by the institution, and the institution must make a recommendation to the bank as to the size of the loan needed by the student to meet his educational costs.

The 1972 amendments give both the educational institution and the lending institution substantial flexibility in the size of the recommendation. The relevant language of the statute is as follows:

HIGHER EDUCATION ACT OF 1965, AS AMENDED

* * * * * * *

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 428. (a) (1) Each student who has received a loan for study at an eligible institution—

(A) which is insured by the Commissioner under this part;

(B) which was made under a State student loan program (meeting criteria prescribed by the Commissioner), and which was contracted for, and paid to the student, within the period specified by paragraph (4); or

(C) which is insured under a program of a State or of a nonprofit private institution or organization which was contracted for, and paid to the student, within the period specified in paragraph (4), and which—

(i) in the case of a loan insured prior to July 1, 1967, was made by an eligible lender and is insured under a program which meets the requirements of subparagraph (E) of subsection (b)(1) and provides that repayment of such loan shall be in installments beginning not earlier than sixty days after the student ceases to pursue a course of study (as described in subparagraph (D) of subsection (b)(1)) at an eligible institution, or

(ii) in the case of a loan insured after June 30, 1967, is insured under a program covered by an agreement made pursuant to subsection (b),

shall be entitled to have paid on his behalf and for his account to the holder of the loan a portion of the interest on such loan (in accordance with paragraph (2) of this subsection) only if at the time of execution of the note or written agreement evidencing such loan his adjusted family income is—

(I) less than $15,000 and the eligible institution at which he has been accepted for enrollment or, in the case of a student who is attending such an institution, at which he is in good standing (as determined by such institution)—

(α) has determined the amount of need for such loan by subtracting from the estimated cost of his attendance at such institution (which, for purposes of this paragraph, means the cost, for the period for which the loan is sought, of tuition, fees, room and board, and reasonable commuting costs) the expected family contribution with respect to such student plus any other resources or student aid reasonably available to such student, and

(β) has provided the lender with a statement evidencing the determination made under clause (I)(α) of this paragraph and recommending a loan in the amount of such need; or

(II) equal to or more than $15,000 and the eligible institution at which he has been accepted for enrollment or, in the case of a student who is attending such an institution, at which he is in good standing (as determined by such institution)—

(α) has determined that he is in need of a loan to attend such institution,

(β) has determined the amount of such need by subtracting from the estimated cost of attendance at such institution the expected family contribution with respect to such student plus any other resources or student aid reasonably available to such student, and

(γ) has provided the lender with a statement evidencing the determination made under clause (II)(β) of this paragraph and recommending a loan in the amount of such need.

(20 U.S.C. 1078(a). As amended by Sec. 132C of Public Law 92-318 June 23, 1972, 86 Stat. 262)

Reports from throughout the country indicated that in this first year of its operation under the 1972 amendments, the number and dollar volume of Guaranteed Loans with interest subsidies may be 40% less than at the comparable period last year. A great many observers have contended that the needs analysis requirement of the 1972 amendments is wholly to blame for this drop-off, and they have proposed to the Committee that the law be again amended to eliminate the needs analysis requirement for all students whose adjusted family income is below $15,000, and who are borrowing no more than $1,500.

II—SUBCOMMITTEE ACTION

In order to ascertain the scope and nature of the problem, and to ascertain the recommendations of student aid officers, lenders and loan guarantee agencies, members of the Committee staff were sent to several regional offices of HEW to conduct interviews with such persons.

The staff filed the following report:

"STAFF REPORT, FIELD TRIP INVESTIGATING GUARANTEED LOAN PROGRAMS

"Pursuant to the instructions of the Chairman of the Subcommittee, the Chairman of the full Committee, and the ranking minority Member of the full Committee, several members of the staff visited seven regional offices of the Office of Education during the period July 16–23, to inquire into reports of problems with the Guaranteed Loan program.

"The staff members traveling and their itinerary was as follows:

"*Kansas City, Mo., July 16.*—A. C. Franklin, Subcommittee Counsel; William H. Cable, Full Committee Counsel; Christopher Cross, Minority Legislative Associate.

"*Atlanta, Ga., July 17.*—Franklin and Cable.

"*Dallas, Tex., July 18.*—Jim Harrison, Subcommittee Staff Director; Robert Andringa, Minority Staff Director.

"*San Francisco, Calif., July 19.*—Harrison, Cable, Andringa.

"*Seattle, Wash., July 20.*—Andringa.

"*New York, N.Y., July 20.*—Franklin, Cross, and William Gaul, Full Committee Associate Counsel.

"*Boston, Mass., July 23.*—Harrison and Andringa.

"In all seven of these site visits, the format was similar. School aid officers, officials of lending institutions, and officials of State Guarantee Agencies were invited to come to the regional office to talk frankly with the staff members and to answer questions and express their own concerns. No effort was made to summon a representative cross-section of the various communities, nor was there a formal transcript made of any of the meetings. The staff has kept lists of names of those in attendance, but they have deliberately not been included in this report, because the persons in attendance were urged to speak in an individual, rather than a representative capacity. In some of the meetings, the staff met with the school and bank officials simultaneously; in others, separately. At some of these meetings, HEW officials were present. At others, they were not. It is the unanimous observation of the staff that the substance of the meetings and cooperative spirit displayed were much the same whether or not the various groups were together.

"We also believe it would be useful to say for the record that the attitude of the agency officials and the other persons invited to the meetings was uniformly constructive, helpful and primarily concerned with getting at the facts. Some of the participants were more obviously there as advocates than were others, but at no time did point-making take precedence over efforts to help us find the facts.

"The following observations are generally subscribed to by all the staff members who participated in these sessions. Not all of us would subscribe to every letter of what appears in this report, but none of us discern major errors of reporting.

"The staff members do not believe we were commissioned to make recommendations for legislative solutions to any of the problems we observed, and we have sought to avoid that in this report.

"I—SCOPE OF THE PROBLEM

"1. Before we departed Washington, all of us had been told that the loan volume—so far in 1973—i.e. amount of money lent and the number of borrowers having loans approved—was down substantially from last year's corresponding period. Although an occasional lender or school felt the figure too high, it was the clear consensus of those to whom we talked in the field that the program was "down" 40% or more as compared to this time last year. Unusual backlogs of applications are on the desks of some student aid officers, but no one asserted that this accounted for the major part of the drop-off. The field trip confirmed that in Calendar 1973 dollar volume is generally lower, month-by-month, than for any year since 1970.

"2. Unsubsidized loans are being made only rarely, but this is not inconsistent with the general pattern of lending institutions in earlier years. So we found evidence neither of any drop-off in unsubsidized loans nor that unsubsidized loans were taking up the slack.

"3. Most lenders decline as a matter of policy to make 'split loans'—a subsidized loan for the amount recommended by the institution and an unsubsidized loan for the remainder of the student's request.

"4. While everyone felt that the net volume of the program would decline this year, there was some disagreement as to the precise mathematics of the decline. It was widely believed by those to whom we talked that the situation would improve. However the number of borrowers would be less than before and that amounts of individual subsidized loans would be reduced. Yet statistics provided us by OE suggested that the "average loan" was actually going up by a few dollars.

"II—EFFECT OF THE DECLINE

"1. In each of the meetings, the participants were asked if this year's decline represented an actual drop in the number of students who would be attending school—or merely a drop in the number who would do so with the help of guaranteed loans. The reactions to this question were not uniform. In Atlanta, Dallas, San Francisco, Kansas City and New York, aid officers felt strongly that some rejected borrowers would be unable to attend the schools they chose initially, but the aid officers were reluctant to assert that substantial numbers of students would be out of school. In Boston, however, the aid officers did assert that a "substantial" number of students would be unable to register in the fall. All of the officers questioned felt that the difficulty in obtaining loans would work a hardship on many students and their families.

"2. There was a general belief—attested to by both student aid officers and lenders that the most serious reductions in previous loan levels are being felt by students whose adjusted family incomes are $10,000 and up. Although there were horror stories told of students from families having lesser incomes being found lacking in need for any loan, the persons to whom we talked felt that the largest number of turn-downs were in the "middle-income" bracket.

"3. While some student aid officers and most lenders admitted their own and complained of each other's unwillingness to exceed the recommendations produced by the need analysis computer—or received by the bank from an aid officer—they repeatedly suggested that the recommended amount least likely to be changed was one assessed by the computer as zero. In other words, student aid officers occasionally, and banks very rarely, were willing to increase a small recommendation, but they were almost never willing to grant any loan to a student with a zero recommendation, treating the zero recommendation virtually as a barrier to a subsidized loan.

"4. Many lenders have selective policies, refusing to lend to freshmen, or to students who had no previous customer relationship with the bank. The lenders did not seem inordinately distressed to learn that such policies might make them ineligible for participation in SLMA.

"III—REASONS

"A. *Program-related reasons*

"1. (a) The most frequently and urgently stated reason for the decline, was the needs analysis requirement. "You have changed the program", one could paraphrase much of what was said, "from loans of convenience to loans of necessity. It is no longer a program for middle-income people. It is now for those who can demonstrate need."

"(b) A frequently voiced complaint was that the needs test multiplied the paper work involved and tripled application processing time.

"(c) By those participants who agree to a needs analysis in principle, there was substantial criticism of the existing needs analysis systems as leading to results which were variously described as ranging from unfair to absurd.

"2. (a) Paradoxically, although no one had a good word for the needs analysis systems, almost no one was willing to depart from the needs figures that system prescribed. There were, in each of the regional meetings, aid officers who claimed a willingness to depart from the needs analysis result, and some lenders who said they were willing to exceed the recommendation of the loan officer. But they were a minority.

"(b) It was not always immediately apparent, but careful questioning elicited in each meeting a deep underlying apprehension about the fate of an institution whose aid officer regularly exceeded even patently absurd needs analysis computations at the hands of some future HEW or GAO auditor. Audits of the recent past have left discernible psychic scars on aid officers.

"3. There was some ambivalence as to where the participants wanted the responsibility for choice actually lodged. Some aid officers and some bankers indicated that they felt they were professionally competent to make those judgments, and just didn't want Big Brother and his auditors second-guessing them. Others—aid officers and bankers alike—argued that they did not, in fact, know their clients personally and well enough to make these judgments and they wanted further guidance in writing from the government. It seemed to us that those who wanted authority and responsibility were substantially outnumbered by those who did not.

"4. Bankers who were willing to exceed the institution's recommendation did ask for access in some manner to the kind of data available to the student aid officers through the Parents' Confidential Statement. They were of course, wholly respectful of the confidential nature of the PCS, and did not expect to be shown it. But they did think that a synopsis of the information it contained would enable them to make better judgments as to the adequacy or inadequacy of the aid officer's judgment.

"5. There was widespread criticism of HEW because of:

"(a) The absence of a program manual.

"(b) Inadequate guidance as to what constitutes 'adequate documentation' for a recommended increase over the needs analysis figures,

"(c) Apparent ambivalence in OE as to the relationship between the expected family contribution and the guaranteed loan itself.

"(d) What some viewed—rather convincingly—as the fallout from an internal struggle within the Office of Education between those who wanted the Guaranteed Loan program to be strictly needs-oriented, and those who thought of it as a liberalized version of what had begun as the "middle-income family's student aid."

"6. It was repeatedly asserted that OE had departed from Congressional intent. Floor comments about the "presumption of need" for persons with income of under $15,000 were cited, and those citing them felt that the program as administered (or perhaps the statute as written) had not reflected that kind of assumption.

"7. OE's delay in announcing the latest special allowance was cited once or twice.

"8. The great delay in announcing the 1973 allocations and guidelines for other student aid programs was cited repeatly as adding to to the slowness and possibly to the decline in loan applications and approvals.

"*B. Non-program related reasons*

"1. A general decline in the number of loan applications was cited by several, but not all, aid officers.

"2. In one meeting, at least, the commercial bankers affirmed that the fact that, notwithstanding the special allowance, they could make more money in other areas tended to discourage them from active participation in this program—even if it were further "sweetened". In the same meeting, in fact, the commercial bankers participating were unanimous that they lost money on the program. Some asserted they were in it *only* for reasons of community service or to create good will. (One banker used the phrase "to recruit customers".) The motivations of other types of lenders were varied.

"3. Frequent staff changes at aid offices and in lending institutions, and the low priority college administrators put on staffing the loan offices were both mentioned as slowing down the work of these offices.

"4. A lack of direct contact between schools and prospective borrowers and lenders and prospective borrowers was mentioned.

"5. With the end of the draft, with the inflation of educational costs, and for other, perhaps deeper reasons, there seems to be a gradual lowering of the value people are putting on higher education. A parent who would use his savings a few years ago to send his child to college, or a student who would mortgage his own future earnings to enter or remain in college is not as frequently encountered today.

"IV.—A RECOMMENDATION, AFTER ALL

"Having at the outset piously eschewed any intention or authority to make recommendations, the staff members who made these trips do have one recommendation which we believe should be implemented whatever the legislative or administrative action taken to meet the existing situation.

"We found in region after region that meetings like ours, bringing student aid officials and lenders together in large numbers were infrequent. For each group, the other was, prior to our meetings, an anonymous group of shadow figures at the other end of a paper chain or a telephone. But they did take advantage of the opportunity to exchange views and they appeared to benefit substantially from meeting together. And we think they should be brought together to discuss their common problems—and the problem of their mutual clients—the student and the student's family."

On July 26, the Special Subcommittee on Education held an open hearing in which the staff study was presented to the Subcommittee, and in which representatives of all interested groups, and of the Office of Education conducted a round-table discussion of the problem. The findings of the staff study were largely confirmed in that discussion.

Although considerable support for a legislative remedy was expressed in that hearing, it was obvious from a quick look at the calendar that, assuming a remedy is desirable, it could only be obtained through unanimous consent if it were to be effective for loans this fall. With the Administration and a substantial segment of the interested community opposed to legislative change, it was clear that unanimous consent could not be obtained.

III.—ADMINISTRATIVE ACTION

As pointed out above, the statute does give the student aid officers and the lending institutions each considerable flexibility. They are not required to abide by the computed results of a needs analysis in determining the actual amount of student need for a subsidized loan. On July 23, the Office of Education, in an effort to cope with what seemed to be a reluctance on the part of both to utilize this flexibility, sent out letters to aid officers and lenders. The texts of those letters are as follows:

DEPARTMENT OF HEALTH, EDUCATION, AND
WELFARE, OFFICE OF EDUCATION,
Washington, D.C., July 23, 1973.

BULLETIN TO ALL STUDENT FINANCIAL AID OFFICERS

THE GUARANTEED STUDENT LOAN PROGRAM

During the last few months, there has been a marked decline in both the number and dollar volume of loans to students as compared to a year ago. We feel that this reduction may be due, in part, to a need for further clarification as to program procedures and the options available to educational institutions in the administration of the program.

By way of background, the Education Amendments of 1972 (P.L. 92–318) specified that in order for a student to be eligible for payment of Federal interest benefits on a guaranteed loan, the student must submit to the lender a recommendation by the educational institution as to the amount needed by the student to meet his educational costs. In making this determination, the school must subtract from the cost of education, the expected family contribution plus any other resources or student aid which the institution determines to be *reasonably available* to the student during the period of the loan.

It must be emphasized that the sole purpose of the school's recommendation is to help determine if the student will qualify for Federal interest benefits. Any student, regardless of need, may still receive an unsubsidized loan if the lender is willing to assist that student.

Furthermore, lenders may make a subsidized loan in excess of the school's recommendation (including $0 recommendation) provided that the lender has reason to believe, based on his specialized knowledge of the family's financial situation, that the school's determination of the expected family contribution is not realistic.

The following guidelines are provided to student financial aid officers to assist them in the administration of the Guaranteed Student Loan Program and its relationships to other student aid programs:

1. Student financial aid officers are permitted to adjust the expected family contribution where, in their judgment, the amount of the computed family contribution does not realistically indicate what the family can contribute to the cost of education. We strongly recommend that the financial aid officer exercise this option by carefully evaluating the results of the needs test in order that the most equitable judgment be exercised in the processing of the student's application. Schools have been provided, in the instructions to FORM OE 1260 "Student Loan Application Supplement," 7 codes they may use where the computed need, as determined by the needs analysis system, is not reasonable. Schools should document their files as to the basis for using one of these codes. If reasonable documentation exists, there should be no concern as to exceptions that may be taken in the future by auditors.

2. If the student is not applying for Federal interest benefits, there is no requirement that an assessment of the student's expected family

contribution be made. In such cases, the student need complete only the affidavit portion of Form OE 1260. Of course, the school will still have to certify the student enrollment, cost of education, and other aid received on the regular application form. In the case of loans guaranteed by State or private guaranteed agencies, these procedures may vary somewhat.

3. The total of all aid made available to and received by a student may not exceed his cost of education, regardless of when he receives such aid.

4. If the student receives a guaranteed loan before the institution has awarded aid, the institution must treat the guaranteed loan as a resource available to the student towards meeting the cost of education.

5. As previously indicated, lenders may make a subsidized loan to a student that exceeds the school's recommendation. Where this happens, the lender has, in effect, determined a new "*expected family contribution.*" If the student receives a guaranteed loan (subsidized or not) after the aid package has been awarded by the school, there is no requirement that the aid package be adjusted, provided that the total aid, including the guaranteed loan, does not exceed the cost of education.

S. W. HERRELL,
Acting Deputy Associate
Commissioner for Higher Education.

DEPARTMENT OF HEALTH, EDUCATION, AND
WELFARE, OFFICE OF EDUCATION,
Washington, D.C., July 23, 1973.

BULLETIN TO ALL LENDING INSTITUTIONS—THE GUARANTEED STUDENT LOAN PROGRAM

PROGRAM OPERATIONS

During the last few months, there has been a marked decline in both the number and dollar volume of loans made to students as compared to a year ago. We feel that this reduction may be due, in part, to a need for further clarification as to program procedures and the options available to lenders in the administration of this program.

By way of background, the Education Amendments of 1972 (P.L. 92–318) specified that in order for a student to be eligible for payment of Federal interest benefits, the student must submit to the lender a recommendation by the educational institution as to the amount needed by the student to meet his educational costs. In making this determination, the school must subtract from the cost of education, the expected family contribution plus any other resources or student aid which the institution determines to be reasonably available to the student during the period of the loan.

It must be emphasized that the sole purpose of the school's recommendation is to help determine if the student will qualify for Federal interest benefits. Any student, regardless of need, may still receive an unsubsidized loan if the lender is willing to assist that student.

Furtherfore, lenders may make a subsidized loan in excess of the school's recommendation (including a $0 recommendation) provided that the lender has reason to believe, based on his specialized knowledge of the family's financial situation, that the school's determination of the "expected family contribution" as reported in Part B–Section III of OE Form 1260 (Student Loan Application Supplement) is not realistic. Where the lender makes a subsidized loan that exceeds the school's recommendation, the lender has, in effect, adjusted the "expected family contribution." Lenders should indicate in their files the basis for exceeding the school's recommendation.

Lenders are encouraged to exercise this option by carefully evaluating the school's recommendation coupled with other information available to them in order that the most equitable judgment be exercised in the processing of the student's application. Lenders have been previously provided detailed instructions relating to procedures for utilizing the school's recommendation to determine a student's eligibility for Federal interest benefits. Additional copies of these instructions may be obtained from the nearest regional office of the Office of Education or the appropriate guarantee agency.

SPECIAL ALLOWANCE

The Secretary of Health, Education, and Welfare has approved the Special Allowance at the rate of 1¾ percent per annum for the quarter ending June 30, 1973. It will be applied to the average quarterly balance of loans made since August 1, 1969, and still outstanding. All such loans are eligible for the special allowance, whether or not the loans are eligible for Federal interest benefits and regardless of whether the students are in school, grace, deferred or repayment periods.

Lenders are reminded that this rate is, by law, determined retrospectively. That is, the rate reflects the economic conditions that existed during the period April 1 through June 30. Thus, the effective rate of interest on guaranteed loans during that period is 8¾ percent. The note evidencing the loan, however, may not reflect a rate higher than 7 percent.

STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE)

On July 16, 1973, Mr. Edward A. Fox, President of the Student Loan Marketing Association, announced plans to offer 700,000 shares of common stock to eligible financial and educational institutions, raising $105 million for the initial capitalization of Sallie Mae. In order to acquaint eligible holders more fully with Sallie Mae and this offering, all lenders have been invited by Sallie Mae to a number of presentations being held throughout the country. Members of Sallie Mae's management and representatives of the several underwriters will conduct these information meetings.

Sallie Mae's objective is to provide liquidity to the student loan market. Caspar W. Weinberger, Secretary of Health, Education, and Welfare (HEW), declared that "Sallie Mae is a milestone in the Government's Guaranteed Student Loan Program (GSLP)." Sallie Mae is empowered to provide liquidity through secondary market activities which can involve the direct purchase and sale of student loans as well as the issuance by Sallie Mae of commitments, guarantees, or other undertakings with respect to student loans. In addition, Sallie Mae can engage in warehousing operations which involve the making of loans to lenders secured by student loans. Advances made in warehousing operations may not exceed 80 percent of the face amount of the student loan collateral and proceeds from such warehousing advances are required to be invested in additional insured student loans.

William M. Simmons, Jr.,
Director, Division of Insured Loans.

These letters did not seem to have the desired effect. So, subsequent to the hearings on July 26, the Subcommittee met informally with Office of Education officials and sought to make the aid officers' flexibility and his protection from audit exceptions more explicit. After that meeting, we sent a letter to Commissioner of Education John Ottina, seeking confirmation of our discussions, and on August 1, a response was received from Commissioner Ottina. The text of both of these letters follows:

Congress of the United States,
House of Representatives,
Committee on Education and Labor,
Special Subcommittee on Education,
Washington, D.C., July 27, 1973.

Hon. John R. Ottina,
Commissioner of Education, Office of Education,
Washington, D.C.

Dear Commissioner Ottina: On July 23rd, Mr. Herrell of the Office of Education sent student aid officers throughout the nation a letter in which he assured them of their ability to use the flexibility the law affords them with respect to adjusting the amount of need which the aid officers recommend to lending institutions under the Guaranteed Loan Program.

In that letter, Mr. Herrell assures student aid officers that they can indeed exercise their flexibility, and that "if reasonable documentation exists, there should be no concern as to exceptions that may be taken in the future by auditors."

This sentence has, apparently, not had the full effect intended. Aid officers are vividly aware of previous HEW and GAO audits, and of strong exceptions taken by auditors with respect to awards made in alleged "excess of need."

If the student aid officers are to be expected to exercise the discretion the law gives them, and Mr. Herrell's letter urges upon them, they must be given some degree of assurance that they can carry out their professional duties reasonably free from auditors' second guessing.

Toward the end of our July 26 hearing on this subject, you were present when Peter Muirhead engaged in a colloquy with committee members over what constituted "reasonable documentation."

Our hearing was forced to recess before we could work out satisfactory questions and answers clarifying and expanding OE's instructions. Education and Labor Committee staff met subsequently with Mr. Muirhead and discussed such instructions further. This letter seeks to put into concrete form the results toward which that colloquy and subsequent discussions were tending.

If an aid officer (1) has before him the results of a needs analysis showing a computed need of substantially less than the student is asking to borrow, and (2) has in his files a statement by the student and/or his family setting forth, in a manner which does not on its face suggest fraud or misrepresentation, an explanation for being unable to meet part or all of the computed expected family contribution, and (3) that reason is consistent with the economic facts of life within that family's income bracket and region and (4) the aid officer's decision to adjust the amount of need is not clearly unrelated to those facts—may the aid officer have your commitment that your auditors will be instructed to recognize the student aid officer's authority to make an adjustment on that given loan application?

In short, given the circumstances outlined above, may the aid officer feel assured that he will not be held accountable by a future audit, even in situations where the student or the student's family have not correctly stated material facts concerning their situation?

Naturally, we are asking for no such immunity as to the student or his family. We are seeking to hold innocent aid officers harmless, not to shield intentional efforts to defraud the United States.

We would also like you to clarify the kinds of documentation that would be considered adequate to support aid officers' decisions of this kind. Would a letter from a student or from a member of his family be sufficient documentation if the student aid officer noted thereon or in a separate document that he had relied upon the information so furnished by the student or his family? Would such a letter received from a lending institution from whom the student sought a loan be equally acceptable in the same circumstances? Would a notation, however informal, written by a student aid officer to record information furnished him in a telephone communication with a student or his family or with an official of a lending institution similarly be deemed adequate documentation?

We would appreciate an immediate response to these questions. If your answers are in the affirmative, we will undertake to secure the same instructions to the GAO auditors.

Chairman Perkins of the House Committee, and members of the Senate Labor and Public Welfare Committee have indicated to you and to us their deep interest in a speedy resolution of this problem.

Very truly yours,

James G. O'Hara,
Chairman.
John Dellenback,
Ranking Minority Member.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
Washington, D.C., August 1, 1973.

Hon. JAMES G. O'HARA,
House of Representatives,
Washington, D.C.

DEAR MR. O'HARA: Thank you for your letter of July 27, 1973, in which you set forth many of the questions and concerns regarding current procedures for the Guaranteed Student Loan Program which were raised at the July 26 hearing and in further discussions with Mr. Muirhead. I am hopeful that the information which follows will clarify the position of the Office of Education with respect to the total process of determining need, including the adjustments which can be made and the documentation required.

I should point out that the determination of need under all the financial aid programs has traditionally involved an adjustment process. The existing needs analysis services such as those provided by the College Scholarship Service and the American College Testing Program, the two largest systems, provide only an estimate of a family's ability to pay. The judgment of the financial aid officer is indispensable in determining the amount of financial support that can be contributed for a specific individual. The inherent flexibility in needs analysis is well stated in the instructions provided for the College Scholarship system:

"Although accurate, objective data constitute the basis for systematic need analysis, the resulting expected contribution should not be considered scientifically accurate. Complexities in an individual's financial circumstances and difference in attitudes toward education will require that an aid officer make adjustments in order to determine the appropriate contribution from the student. In doing this, he must evaluate both the objective and subjective information available to him from all sources. *A system of need analysis must always be a guide for judgment, not a substitute.* A financial aid officer has a professional responsibility to make equitable judgments about each individual. If he simply accepts the computed need as an "answer" from a systematic need analysis, he shirks his responsibility to the institution and the student."

On Section III A of form 1260 the amount of a student's family contribution as computed by a uniformly applied needs analysis system is entered and no further documentation is required. Section III B is provided to permit a student financial aid officer to exercise his judgment and take into account the individual circumstances of a student or his family.

The circumstances in which the financial aid officer is permitted to make adjustments are basically those provided in the 7 codes in the instructions to Form OE 1260. For code 6, "cannot meet expected contribution from income", the situation you have outlined on the top of page two of your letter would certainly be reasonable. In this case, there would be no question that the Office of Education would support the institution in any case where an auditor took exception to the action of the student financial aid officer.

There are any number of ways in which such adjustments can be documented. For example, letters from a student or from a member of his family would be sufficient documentation if the student aid officer noted thereon or in a separate document that he had relied upon the information so furnished by the student or his family; or a letter received from a lending institution from whom the student sought a loan would be equally acceptable in the same circumstances. A notation, written by a student aid officer to record information furnished him in a telephone communication with a student or his family or with an official of a lending institution would similarly be deemed adequate documentation provided the financial aid officer also wrote a letter of confirmation of the conversation to the appropriate party.

While the financial aid officer must always be the final authority in any system of needs analysis, he can only do this based on the information provided by the student and his family. The student is now required to execute an affidavit stating that the loan proceeds are to be used solely for expenses related to attendance at the education institution. The federal warning clause on both the application and the supplementary form applies to the student and his family. Naturally, the financial aid officer would not be held accountable if there were fraud on the part of the student or his family.

In conclusion, let me emphasize that the Office of Education is prepared to support the institution in any exception taken in the future by auditors where the financial aid officer has exercised his professional judgment and provided reasonable documentation of the type which I have described above for adjustments in the amount of family contribution. You have my full assurance in this regard.

Best wishes,

Sincerely,

JOHN OTTINA,
Commissioner of Education-designate.

cc: John Dellenback.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR,
SPECIAL SUBCOMMITTEE ON EDUCATION,
August 3, 1973.

Hon. ELMER B. STAATS,
Comptroller General of the United States,
Washington, D.C.

DEAR MR. STAATS: Enclosed is an exchange of correspondence between us and Commissioner of Education John Ottina. In these letters, we have sought to obtain an explanation of OE policy toward the exercise of the discretion which Section 428(a) of the Higher Education Act as amended vests in student aid officers at postsecondary education institutions.

In our opinion, Commissioner Ottina's August 1 letter, in which he responds affirmatively to the question we posed in our letter of July 27, faithfully reflects the intention of the Congress in enacting Section 428. And it will give student aid officers confidence that their professional judgment will not lightly be set aside by HEW auditors.

In our letter to the Commissioner, we said that if he could give us an affirmative answer, we would seek to secure similar instructions to the General Accounting Office.

The purpose of this letter, in summary, is to advise you of the interpretation which the Chairman and Ranking Minority Member of the Special Subcommittee on Education have put upon Section 428—an interpretation with which the Office of Education concurs—and to urge that GAO auditors be advised of these views whenever they undertake any audits of the Guaranteed Student Loan Program.

Very truly yours,

JAMES G. O'HARA,
Chairman.
JOHN DELLENBACK,
Ranking Minority Member.

In summation, Mr. Chairman, while the problem with the Guaranteed Student Loan Program is by no means solved. We do believe that the negotiations concluded between the Committee and the Office of Education may have helped bring the loan approval process back a little closer to the original intent of the Congress. We feel that Commissioner Ottina's letter of August 1 should be particularly helpful in emphasizing for financial aid officers the procedures and flexibility available to them in determining the eligibility (and realistic level of need) of qualified applicants for interest subsidies.

It is the Chairman's intention to ask the Special Subcommittee on Education to thoroughly examine the Guaranteed Student Loan Program, as a part of our upcoming review of student assistance programs and in preparation for their expiration in 1975.

Very truly yours,

JAMES G. O'HARA,
Chairman.
JOHN DELLENBACK,
Ranking Minority Member.

Hon. James G. O'Hara,
Chairman, Special Subcommittee on Education,
Committee on Education and Labor,
House of Representatives

Dear Mr. Chairman: We refer to your letter dated August 6, 1973, written jointly with the Honorable John Dellenback, concerning the role of General Accounting Office auditors in reviewing the Office of Education's Guaranteed Student Loan program.

Your letter of July 27, 1973, to the Commissioner of Education, John R. Ottina, referred to Mr. Herrell's correspondence dated July 23, 1973, to student aid officers throughout the Nation. Mr. Herrell stated that student aid officers can exercise flexibility in determining the amount of an individual student's financial need, and that "if reasonable documentation exists, there should be no concern as to exceptions that may be taken in the future by auditors."

We have always recognized the need for student aid officers to deviate from student need formulas in providing financial assistance. Our concern has been that student aid officers had not always maintained adequate documentation to support such decisions.

We believe your July 27, 1973, letter to Commissioner Ottina and his August 1, 1973, response provide useful and definitive guidance to all auditors as to the type and nature of documentation expected to be maintained by student aid officers. You may be assured that we will continue to monitor the Guaranteed Student Loan program in conformance with the congressional intent.

Sincerely yours,

Elmer B. Staats,
Comptroller General of the United States.

APPENDIX B.—REGULATIONS FOR APPLICATION FOR FEDERAL INTEREST BENEFITS AND STUDENT AFFIDAVIT, FEDERAL, STATE, AND PRIVATE PROGRAMS OF LOW-INTEREST LOANS TO VOCATIONAL STUDENTS AND IN INSTITUTIONS OF HIGHER EDUCATION

Title 45—PUBLIC WELFARE

Chapter I—Office of Education, Department of Health, Education, and Welfare

PART 177—FEDERAL, STATE, AND PRIVATE PROGRAMS OF LOW-INTEREST LOANS TO VOCATIONAL STUDENTS AND STUDENTS IN INSTITUTIONS OF HIGHER EDUCATION

APPLICATIONS FOR FEDERAL INTEREST BENEFITS AND STUDENT AFFIDAVIT

A proposal was published in the FEDERAL REGISTER on October 28, 1972 (Vol. 37, No. 209, p. 23152) to amend Part 177 of Title 45 of the Code of Federal Regulation to reflect certain provisions of the Education Amendments of 1972, Public Law 92–318. The key provisions of this proposal were essentially as follows:

1. Under revised § 177.2 a lender would set the amount of a loan as to which Federal interest benefits were applied for with the guidance of a recommendation of the educational institution to be attended by the student borrower. The recommendation fo the educational institution is to be determined in accordance with a statutorily specified formula which takes into account the student's educational costs, expected family contribution, and other sources of financial aid. The section would define "expected family contribution" and specify the distinction to be applied between borrowers with adjusted family incomes of less than $15,000 and those with adjusted family incomes equal to or in excess of $15,000. Nothing in the revisions of § 177.2 would impose any new restrictions on the making of loans as to which no application is made for payment of Federal interest benefits.

2. New § 177.10 would set forth the rules applicable to the filing of the statutorily required affidavit that the student will use his loan proceeds solely for educational purposes.

Interested persons were invited to comment on the proposed amendments. A number of respondents suggested that the methods of determining the expected family contribution which were authorized under the proposed § 177.2(c)(2) would produce unrealistically high figures with respect to students who are no longer dependent on their parents and who have family responsibilities of their own. Accordingly, under new § 177.2(c) (3) an educational institution will be permitted to use a different method of computing the expected family contribution which takes these responsibilities into account with respect to independent students as defined in § 177.2(c)(3). Such a method must be one which has been promulgated by the Commissioner of Education or which produces results which are, on the whole, not dissimilar from those which would be produced under any method which has been so promulgated. It is expected that the Commissioner will promulgate at least one such method shortly.

The majority of the other comments expressing dissatisfaction with the proposed regulatory amendments contained objections to the inclusion of statutory requirements or the omission of provisions unauthorized by statute. In particular, it should be noted that the law requires that in order for any student, regardless of adjusted family income, to qualify for interest benefits, the educational institution which he is to attend must determine the amount of his need for a loan by subtracting from the estimated cost of his attendance at such institution his expected family contribution plus other resources or student aid, and the institution must then provide the lender with a statement recommending a loan in the amount of such need. Moreover, there is no authority in the law under which the Commissioner could compensate educational institutions for performing this function.

Other respondents objected to the requirement that the new student affidavit be signed in the presence of an authorized person other than one who takes part in the recruiting of students for enrollment at the prospective borrower's eligible institution. The Commissioner believes, however, that although this requirement may cause some parties some inconvenience, the segregation of the two functions will tend to prevent the pro forma treatment of the affidavit and to encourage the deliberate consideration of its terms by the prospective borrower.

Many comments were also received concerning the proposed form to be used with the amended regulations, which was published as an appendix to the proposed regulatory amendments. A number of the ideas contained in these comments are being incorporated into the final form, which will be available shortly.

Inasmuch as the Office of Education is currently reviewing the suitability of a number of methods of determining expected family contribution for this and other Federal student assistance programs, methods named in § 177.2(c)(2) are being approved only "until further notice."

In light of the foregoing, Part 177 of Title 45 of the Code of Federal Regulations is hereby amended by revising § 177.2 and adding a new § 177.10 (which sections shall be identical to those included in the proposal published on October 28, except for the modifications indicated above), to read as follows:

§ 177.2 *Student eligibility for interest benefits.*

(a) A student: (1) Who has received a loan from an eligible lender under (i) a student loan insurance program meeting the requirements of § 177.12 or § 177.13, (ii) a program meeting the requirements of § 177.14, or (iii) the program of Federal loan insurance provided for in Subpart E of this part, (2) who is enrolled or has been accepted for enrollment as at least a half-time student in an eligible institution, (3) who has had made on his behalf the determination and statement (and, as applicable, the consultation) provided for in paragraph (b) of this section, and (4) who is a national of the United States or is in the United States for other than a temporary purpose and intends to become a permanent resident thereof, or is a permanent resident of the Trust Territory of the Pacific Islands, is eligible for payment on his behalf of a portion of the interest as determined under § 177.4.

(b) In order for a student to be eligible for payment on his behalf by the Commissioner of a portion of the interest on a loan as determined under § 177.4: (1) The eligible institution at which the student has been accepted for enrollment or which he is attending (and in good standing as determined by the institution) must, prior to the making of such loan, (i) determine, pursuant to paragraph (c) of this section, the loan amount needed by the student, if any, and (ii) recommend that the lender make a loan in the amount so determined, and (2) the loan must not exceed the eligible institution's recommendation unless the basis for the lender's making a larger loan has been reduced to writing and made a part of the lender's records. In addition, in the case of a student with an adjusted family income equal to or greater than $15,000, if the loan exceeds the eligible institution's recommendation, a portion of the interest on such loan will be paid pursuant to § 177.4 only if prior to making the loan the lender consults with the eligible institution with respect to the latter's recommendation. The lender must keep a record of such consultation.

(c)(1) The determination referred to in paragraph (b) of this section is to be made by a responsible officer of the eligible institution concerned by subtracting from the amount estimated by such institution to be the cost of attendance at such institution for the period for which the loan is to be made, the expected family contribution with respect to such student plus any other resources or student aid that such institution determines to be reasonably available to the student during such period.

(2) For the purpose of this paragraph the "expected family contribution" shall mean the amount which a student, his parents, and his spouse may be realistically expected to contribute toward his postsecondary education for the academic period to be covered by the loan. The determination of the expected family contribution must be made by an eligible institution through the use of a method, embodying uniformly applicable standards and criteria, which takes into account the income, assets, and resources of the student and, except where the conditions set forth in § 177.3(c) are met, the income, assets, and resources of the student's parents and spouse. Any method used under an agreement be-

tween the eligible institution and the Commissioner in connection with the administration of any other program of Federal financial assistance, or, until further notice, the Alternate Income System, the American College Testing Program system, the College Scholarship Service system, or the Income Tax system, will meet the requirements of this paragraph. Other methods may meet the requirements of this paragraph but only if, except as provided in subparagraph (3) of this paragraph, they produce results which are, on the whole, not dissimilar from those which would be produced under any of the methods referred to in this paragraph. The eligible institution should make appropriate adjustments to the results reached under any of the approved methods so as to consider more meaningfully the individual circumstances of the student involved and, where applicable, his parents or spouse. Information about the generally recognized methods of needs analysis may be obtained from State or private nonprofit loan guarantee agencies, the regional offices of the U.S. Office of Education, and the Division of Insured Loans, Bureau of Higher Education, U.S. Office of Education, Washington, DC 20202.

(3) With respect to a student whose parents' income need not under § 177.3 (c) be considered in computing his adjusted family income, an eligible institution may determine such student's expected family contribution through the use of a method which, by taking into account the family responsibilities of such student, produces results dissimilar from those which would be produced under any of the methods referred to in subparagraph (2) of this paragraph which do not take such factors into account. Such a method must be one which has been promulgated by the Commissioner or which produces results which are, on the whole, not dissimilar from those which would be produced under any method which has been so promulgated.

(d) To have interest payments made on his behalf, a student shall submit to the lender a statement in such form as the Commissioner may prescribe, which shall include:

(1) A certification by an eligible institution that he is enrolled at the institution or has been accepted for enrollment;

(2) Information necessary to determine, pursuant to § 177.3, whether his adjusted family income is less than $15,000;

(3) A statement from the eligible institution containing the determination and the recommendation provided for in paragraph (b) of this section; and

(4) Information concerning other loans to him which have been made under programs covered by this part or Part 178.

(e) The lender, acting in good faith, may in the absence of information to the contrary rely upon statements submitted by the borrower, his family, or an eligible institution pursuant to paragraph (d) of this section.

(f) This section shall apply to a loan if application for an insurance commitment with respect to such loan is received after February 28, 1973, by a State or private nonprofit agency under a student loan insurance program or the appropriate regional office of the U.S. Office of Education under the program of Federal loan insurance, or if a note or written evidence of a loan commitment is executed after February 28, 1973, under a direct State student loan program.

(g) Nothing in this section requires determination of need for a loan or of an expected family contribution or of adjusted family income with respect to the making or insuring of any loan covered by this part as to which no application for Federal interest benefits is made.

(20 U.S.C. 1078

§ 177.10 *Affidavit.*

(a) No loan or loan guarantee may be made under this part unless the student to whom it is made has filed with the lender an affidavit, on a form provided or approved by the Commissioner, stating that the money attributable to such loan or loan guarantee will be used solely for expenses related to attendance at the eligible institution which the student intends to attend or is attending.

(b) The student must sign the affidavit in the presence of a notary or other person who is legally authorized to administer oaths or affirmations and who does not take part in the recruiting of students for enrollment at the eligible institution which the student intends to attend or is attending. The notary or other person must enter his signature and, as applicable, his seal or stamp on the affidavit form.

(c) The affidavit must be filed with the lender before the lender may apply for Federal insurance or a guarantee from a State or private nonprofit guarantee agency or, where the lender operates a direct State student loan program, before the loan for which the student is applying may be made. The lender must retain a copy of the affidavit in accordance with § 177.8(e). A copy of the affidavit or a statement that the affidavit has been filed must accompany the lender's application for Federal insurance or for a guarantee from a State or private nonprofit guarantee agency.
(20 U.S.C. 1082, 1088g)

Effective date. The amended § 177.2 shall become effective as of March 1, 1973. That part of new § 177.10 which does not merely restate or interpret the law shall become effective February 2, 1973.

Dated: December 26, 1972.

JOHN OTTINA,
Acting U.S. Commissioner of Education.

Approved: December 26, 1972.
ELLIOT L. RICHARDSON,
Secretary, Health, Education, and Welfare.

[FR Doc.73-200 Filed 1-2-73;8:45 am]

APPENDIX C.—STATISTICS RELATED TO THE GUARANTEED STUDENT LOAN PROGRAM PREPARED BY THE U.S. OFFICE OF EDUCATION

Statistical Summary as of June 30, 1973:

ANNUAL LOAN VOLUME

Fiscal year	Federal program		Guarantee agency		Total		Percent change over previous year	
	Volume	Number (thousands)	Volume (millions)	Number (thousands)	Volume (millions)	Number (thousands)	Volume	Number
1966	0	0	77	48	77	48		
1967	0	0	248	330	248	330		
1968	67	83	369	433	436	515	75.4	56.1
1969	218	248	469	539	687	787	57.5	52.8
1970	354	365	486	557	840	922	22.3	17.1
1971	484	487	560	594	1,044	1,081	24.3	17.3
1972	708	692	593	564	1,301	1,256	24.7	16.2
1973	655	599	544	489	862	700	−7.9	−13.4
Total	2,900	2,826	3,800	2,902	6,700	6,728		

DISTRIBUTION OF CUMULATIVE LOANS[1]

Family income	Adjusted	Gross	Race		Sex		Academic year	
$0 to $2,999	22.1	13.2	White	82.0	Male	63.8	1st	34.5
$3,000 to $5,999	23.4	16.0	Black	12.2	Female	35.6	2d	20.4
$6,000 to $8,999	23.5	18.5	Other	2.1	No response	.5	3d	18.7
$9,000 to $11,999	18.1	19.5	No response	3.6			4th	16.1
$12,000 to $14,999	10.2	16.4					Graduate	8.9
$15,000 and over	2.7	16.4					No response	1.3

[1] As of June 30, 1972.

LENDER PARTICIPATION

Type of lender (includes some branches)	Number	Percent of lenders	Cumulative[1] percent of loans	Eligible education institutions	
National banks	5,792	30.2	40.0	Higher Education	3,704
State banks	8,365	43.7	29.4	Vocational	3,925
Mutual savings banks	447	2.3	8.7	Foreign	600
Savings and loan	1,665	8.7	7.1		
Credit unions	2,592	13.5	3.0	Total	8,229
Direct loan programs	2	0.0	5.9		
Other	314	1.6	5.9		
TOTAL	19,177	100.0	100.0		

[1] As of June 30, 1972.

INTEREST AND SPECIAL ALLOWANCE TOTAL PAYMENTS

	Interest	Special allowance
Fiscal year:		
1967	$5, 421, 768	
1968	20, 989, 537	
1969	48, 409, 122	
1970	80, 473, 157	$4, 954, 823
1971	129, 923, 050	16, 551, 641
1972	171, 707, 845	18, 123, 333
1973	201, 490, 505	22, 568, 682
Total	658, 414, 892	62, 198, 479

CLAIMS SUMMARY[1]

[Dollars in thousands]

	All claims paid, amount	Default		Bankruptcy		Death and disability	
		Amount	Total	Amount	Total	Amount	Total
Federally insured	$61, 976	$55, 277	89. 2	$3, 350	5. 4	$3, 349	5. 4
Guarantee agency	86, 901	78, 342	90. 1	2, 680	3. 1	5, 879	6. 8
Federally reinsured	48, 371	42, 829	88. 5	1, 433	3. 0	4, 109	8. 5

[1] As of June 30, 1972.

Note.—Summary of collections since inception: Federal insured loan program, $3,260,551; Guarantee agency loan program (reinsurance), $3,142,210.

GUARANTEED STUDENT LOAN PROGRAM LOAN VOLUME COMPARISON, MARCH, APRIL, MAY, JUNE 1972-73

	Federal insured loans		State and private guaranteed loans	
	Number	Dollars	Number	Dollars
March:				
1972	42, 793	39, 775, 782	15, 799	14, 577, 197
1973	23, 794	23, 588, 160	8, 378	8, 012, 356
Loss	18, 999	16, 187, 622	7, 421	6, 564, 841
Percent	44	41	47	45
April:				
1972	36, 532	33, 655, 580	9, 798	9, 590, 466
1973	17, 269	18, 778, 843	5, 270	5, 215, 918
Loss	19, 263	14, 876, 737	4, 528	4, 374, 548
Percent	53	44	46	46
May:				
1972	48, 771	44, 328, 177	17, 902	19, 305, 855
1973	33, 514	34, 751, 833	9, 892	10, 630, 044
Loss	15, 257	9, 576, 344	8, 010	8, 675, 811
Percent	31	22	45	45
June:				
1972	61, 809	61, 373, 171	57, 400	68, 370, 677
1973	47, 350	52, 200, 864	25, 329	30, 706, 502
Loss	14, 459	9, 172, 307	32, 071	37, 664, 175
Percent	23	15	56	55
March to June 1972	189, 905	179, 132, 710	100, 899	111, 844, 195
March to June 1973	121, 927	129, 319, 700	48, 869	54, 564, 820
4-months loss	67, 978	49, 813, 010	52, 030	57, 279, 375
Percent	36	28	52	51

PERCENT LOSS COMBINED PROGRAMS

	Number	Dollars
March	5	42
April	51	45
May	35	29
June	39	36
4-month loss	41	37

Appendix D.—Miscellaneous Correspondence and Other Materials Related to the Guaranteed Student Loan Program

[From the Washington Star News, July 23, 1973]

Middle-Class Collegians Feeling Loan Crunch

(By John Mathews)

Bankers, college loan officers and government officials in Maryland, Virginia and the District say there really isn't a serious loan crisis for college students now.

But don't tell that to students like Sarah Morse.

The Bethesda-Chevy Chase High School June graduate, whose father is an engineer for the Bureau of Standards, has been accepted at Grinnell College, a well-regarded liberal arts institution 55 miles from Des Moines, Iowa. The other day, she called five Maryland banks to find out where she can get the $1,500 loan she needs to attend Grinnell.

Both Chevy Chase Bank and Trust Co. and Suburban Trust Co. told her they do not make loans to freshmen. University National Bank doesn't participate in the state-guaranteed student loan program.

Union Trust Co. said she was eligible for a loan, but only if her parents had maintained accounts for the last three years, while Maryland National Bank said a "depository relationship of six months" was required.

Poverty-level students can put together a package of government scholarships and subsidized loans to attend college, and students from upper-income families can depend on family resources exclusively or high-cost commercial loans.

But the student from a middle-income, like Sarah Morse, is being increasingly cut out from the low-interest Guaranteed Student Loan program.

More than a year ago, Congress passed an omnibus education bill that intentionally directed more government-supported loans towards lower-income students. A "needs test" was established requiring extensive family financial disclosure to determine who should be eligible for loans, with the government picking up the interest while the student is in college and for nine months after graduation.

Previously, a $15,000 family income was generally considered the cutoff point for a government subsidized loan. Now many students whose families are in the $10,000 to $15,000 income range are finding out they no longer qualify for the government loan because of the stringent new means test.

Those who do not—like Sarah—are eligible for an unsubsidized, but government guaranteed loan. Such a loan is highly desirable, because it carries a 7 percent maximum interest rate and defers repayment until after graduation.

Even though banks cannot lose a cent on such loans—since federal or state agencies guarantee repayment if the student defaults—many banks, particularly in the District, are not issuing non-subsidized loans.

Students and their families are forced, as a result, to obtain costly commercial loans with 10 to 12 percent interest rates and immediate monthly repayment required.

In some cases, students qualified for subsidized loans find the needs test does not provide them enough money to attend a higher-cost private college or to go away to a public college. Some must settle for commuting to a lower-cost public college.

The needs test, for example, requires a family of two children with a $12,000 income to contribute $1,580 annually towards the college education of one child. A four-member family with a $15,000 income is expected to be able to afford $2,420. When other assets are counted, the family contributions are even higher.

Costs for a boarding student at the University of Maryland are estimated at about $2,200, while a private school, like George Washington University, costs about $4,600.

"The middle-income student is very definitely getting hurt severely," said Robert McCormick, director of the Educational Assistance Office of the District government.

McCormick, whose agency processes loans for District students attending colleges here or elsewhere, said he has gotten reports of students being denied guaranteed loans they had last year. Ten D.C. banks that cooperate in a money pool for student loans will make no loans above what the needs test, computed by college officials, indicates and plan no unsubsidized, guaranteed loans, McCormick said.

A spokesman for local bankers, however, insisted that "it's easier to get a loan for college here than in Maryland or Virginia."

Despite the indications that some middle-income students are hurting, McCormick said, student loan applications in the District are not expected to decline. In Maryland and Virginia, loan applications are also up, even though on a national basis the U.S. Office of Education reported last month loan applications were down some 40 percent.

On Wednesday, a subcommittee of the House Education and Labor Committee will receive a staff report based on a survey covering a number of major cities and states. The report is expected to show that a student loan crisis appears to be developing, but that severity of the crunch varies by region.

"We don't have a problem now, but it may be too early to tell," said James A. Leamer, executive director of the Maryland Higher Education Loan Corp., which insures student loans in the state.

In contrast to the District, Leamer said Maryland banks are issuing more unsubsidized loans than last year and that the total number of loans has increased, although the amount of individual loans may be less. About 60 percent of the banks will not loan above the loan amount colleges have determined a student needs, even though they are free to do so, he added.

In Virginia, Fletcher Stiers, assistant director of the State Education Assistance Authority, said the student loan volume equals last year. But, he added, "It's really too early to tell, since our greatest volume is next month."

Surprisingly, the current tight money situation seems to have had little impact on the amount of funds banks set aside for student loans. In the District, banks are expected to have a $6 million pool for student loans, about the same as last year.

A Union Trust Co. official in Baltimore said his directors so far had placed no upper limit on how much money can be used for student loans, and a Suburban Trust Co. spokeswoman said $1 million was allotted for student loans, double last year's amount.

Some bankers said that students loans are, in effect, "loss leaders" that cost the banks more than they bring in. "We don't make a nickel on student loans; it's strictly a social service, said Joseph W. Barr, board chairman and chief executive officer of American Security and Trust.

Banks charge students 7 percent, then receive an added stipend from the government that varies, but now stands at three-quarters of one percent. The loans, however, are a sure thing, backed by federal or state guarantees.

Even with the relatively low interest rate, compared to mortgage or short-term loans, and the added paperwork required by the government, some other banks dispute Barr's contention.

"We have found student loans very profitable," said the Suburban Trust spokeswoman. Banks think of the loans as a long-term good-will investment, hoping that grateful students eventually will become adult customers.

Despite her initial rebuffs from Maryland banks, Miss Morse doesn't plan to abandon her plan to attend the Iowa college.

Even though Union Trust requires three years as a depositor before making a student loan, a spokesman said that requirement is often waived in individual cases. So Sarah will try again.

If she cannot get a loan, Miss Morse still plans to go to Grinnell, using money from a $135-a-week summer job and help from her family for at least one semester and hoping a loan will materialize for the second semester.

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., July 26, 1973.

Hon. JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
House Committee on Education and Labor,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: The American Bankers Association had planned to appear before your Committee on July 25, to testify on the problems facing the Guaranteed Student Loan Program. However, the change in the hearing date to July 26 made it impossible, because of previous commitments, for our two witnesses to appear. Therefore, we would appreciate it if you would permit us to submit this letter for the record. We recognize the value to the Committee of being able to question and elicit answers from the witnesses. The Association will be happy to respond to any specific questions the Committee might have.

As you know, 20 U.S.C. 1085(F) defines "eligible lenders,' as banks, savings and loan associations, credit unions, insurance companies, and pension funds. At the present time, in excess of three billion dollars or over 70 percent of the outstanding Guaranteed Student Loans have been made by members of our Association. Needless to say, we have a very vital interest in this program.

Banks, like the Congress, State guarantee agencies, financial aid officers, and the Administration, have taken cognizance of the drop in both the number of loans and the dollar volume this year as compared to the same period in 1972.

In an effort to ascertain the cause of this drop in loan volume, and in response to questions put to us during our appearance before the Senate Subcommittee on Education, June 22, 1973, we have sent out a questionnaire to 2,150 selected banks. It was our hope that we could supply the Committee with the results of that survey at this time but only preliminary results have so far been tabulated. We anticipate that we will have a reasonable sample tabulated by July 27, which would be indicative of reliable trends and opinions.

Among the questions we asked were:

a. The total number of Guaranteed Student Loan applications received, accepted and rejected, January 1-June 30, 1972; January 1-June 30, 1973.

b. The total dollar volume on the number of accepted loans for the same periods.

c. The number of loans per student in respondent banks.

d. The sufficiency of bank funds available for commitment to the Guaranteed Student Loan Program during the coming academic year for anticipated student demand.

If the Committee feels the information we are able to compile will be of some assistance to its deliberations, we will be happy to furnish you with the results, perhaps within this next week.

In the past few weeks, we have been contacting a number of our members to see if they could give us some reasons for the marked decrease in loan volume. Among the reasons cited are:

a. Unfamiliarity by lenders, students, and schools with the new regulations.

b. Ending of the draft and the pressure on male students to seek collegiate deferments.

c. A reluctance on the part of some families to complete or submit the detailed financial statement required for the "needs analysis."

d. Application of the "needs test analysis" seems to be eliminating this year many students who qualified for subsidized loans in the past.

e. The additional time required to apply the "needs test analysis" has increased the approval process in both time and effort.

f. Reluctance on the part of the financial aid officer to adjust "what can the family realistically contribute" after following prescribed, recommended new legislative procedures (Part B. Section III b 18 on O.E. Form 1260 1/73).

g. Reluctance on the part of the lender to adjust the "amount the school recommends" (Part C. 29 O.E. Form 1260 1/73).

We cannot speculate on why the financial aid officer is reluctant to adjust the computed need. We note that the typical lender seldom adjusts the school's recommendation. The program now places the approval responsibility on the financial aid officer to make a thorough and comprehensive analysis of the student's needs. In addition, he should also know what aid is available to the student, and the costs for attending a particular institution. The analysis and loan credit approval process has, therefore, essentially been taken away from the lender. Accordingly, he is unwilling to alter the process and feels constrained to abide by the school's recommendation.

We have noted, however, that in smaller communities, where the lender has personal knowledge of the student and his family, he is more likely to adjust the school's recommendation than in the large metropolitan areas where the student may be unknown to the lender.

h. Uncertainty as to the funding of other Federal programs, thus making it also impossible for the financial aid officer to determine "financial aid awarded and other resources."

i. Extensive paper work and "red tape."

Recent news articles have indicated that the increase in the Federal Reserve Board's discount rate, the high prime rate, and high mortgage rates have contributed dramatically to the decline in loan volume. Our findings counter such a charge. We would point out first that this program has co-existed and grown during similar periods of tight money of the past. Secondly, the banks we have talked to have indicated they do not intend to reduce existing commitments they have made to this program, including the multiplying effect on loans caused by repeat borrowers. One valuable aid to lenders in this period of tight money would have been the ability of lenders to sell some of their existing paper to the Student Loan Marketing Association, authorized by the Congress in the Education Amendments of 1972. This would have supplied new funds for new students to replace existing slow liquidating loans in lending portfolios. We are pleased to see that they may be able to provide some relief soon.

Much has recently been made of the reluctance of banks to make nonsubsidized loans. We have found that a number of banks we have talked with have been making nonsubsidized loans to students they are servicing who previously qualified for subsidized loans but who have been denied similar accommodations under the current "needs test analysis."

Those lenders who do not make nonsubsidized loans seem simply disenchanted with the program, its constant change, its red tape, and questionable design. Others cite cost as the principal factor. It reduces servicing costs to send to the Office of Education a list of all the subsidized loans and receive a single payment, as opposed to billing each student who carries a nonsubsidized loan on a monthly or quarterly basis. It has been suggested that lenders defer collecting interest until the student finishes school. This, we feel, would be absolutely unfair to both the student and the lending institution. In addition, many students receiving nonsubsidized loans simply will not be able to make the single accrued interest payments in such a manner. Thus, the Government could end up with another loan in default and subject to repurchase.

In seeking a solution to this problem, we find ourselves a "house divided." In talking to our members we find:

1. That many think the law should not be changed in the middle of an academic year because of the effect on students who have already processed loans.
2. Some think that the needs test should be altered to simplify requirements to speed up loan processing prior to September.
3. Many lenders are unhappy with the entire program.
4. Many bankers are disturbed by the annual summer crisis and uncertainty in the program.
5. Many think change is needed but they are not sure what should be done.

We asked as many bankers as we could what, if any, changes they would make in the present program and if they could recommend or accept change such as that proposed by Congressman Frey in H.R. 9640. At least a third of the banks find that the present law now accurately determines who really is in need and entitled to an interest-free loan. A number of lenders in this category also said that when the law was changed, by the time they got the new regulations the school year would be half gone. In addition, they pointed out that any delay in students' getting these funds would be "blamed on the lender."

Those who favored a change were not sure just what change was needed, whether it was "15-15" or what. They reiterated what those who said they wanted no change said, "we just want to make sure those students from middle-income families who need aid can get it."

Lenders who are unhappy over the program feel that even though they had contributed substantially to this program, neither student, parent, nor the Congress thought their effort even on a nonprofitable basis was enough.

Another group felt that the mass of paper work and volumes of red tape, plus delays in being reimbursed when a loan goes into default, have made the program unmanageable and undesirable.

Most bankers agree that the Office of Education should ultimately develop a different needs test applicable for these programs. There should be an entirely different test between a student receiving a grant and a student borrowing funds under the Guaranteed Student Loan Program which obligates the student to repay. This would, in our opinion, be just as important if the Congress adopted H.R. 9406.

Finally, we would suggest that if Congress decides to amend Section 428(e)1, they also should amend Section 2(a)(7) of the Emergency Insured Student Loan Act of 1969 by striking out "July 1, 1974" and inserting in lieu thereof "July 1, 1975." This would ensure our avoiding the continuing drama of the Guaranteed Student Loan Program for at least next summer, and allow all of the parties an opportunity to see how well we are operating under the present program.

We appreciate this opportunity to present our views to the Committee and, once again, we will be happy to assist you in any way we can.

Sincerely,

CHARLES R. MCNEILL,
Executive Director, Government Relations.

WHITTIER COLLEGE,
Whittier, Calif., August 7, 1973.

HON. CARL PERKINS,
Chairman, Committee on Education and Labor,
Washington, D.C.

DEAR MR. PERKINS: Directors of financial aid representing 52 independent California colleges and universities met this week to discuss their need for the 1% administrative fee on Federally Insured Student Loans. The increase in requests over the past two years has been overwhelming and we find ourselves unable to cope with the paper work required by the government. 30% of these requests come from students who have not previously filed Parents' Confidential Statements; we must therefore do a needs analysis, write two or three letters explaining why the Confidential Statement must be filed, make individual judgments on the Supplemental Form, write special letters to bankers in an effort to find lenders for freshmen, for students returning to our campuses who are over 26 years of age, and for students who have no account relationship with any bank. Our business offices have had to add extra personnel to handle exit interviews, computer services and the federal reports. But, disregarding the extra business service costs, it is our considered opinion that in the individual financial aid offices an average of 30 minutes is being spent handling the application for one loan. Often times, in addition to this 30 minutes, there are interviews with students and their parents going over the details of the program.

The Federally Insured Student Loan program is probably three times harder to administer and more time consuming than the National Direct Student Loan on which a 3% administrative allowance has been the practice. The volume of business in the Federally Insured Student Loan program far exceeds that handled in the Supplemental Economic Opportunity Grant program and requires several hundred per cent more time to administer; but, here again a 3% administrative allowance is in use on the one and not on the other.

Anything you can do to relieve the pressures currently placed on financial aid officers will be greatly appreciated by them, by the colleges for which they work and by the students they serve. Additional clerical help is badly needed and a 1% administrative allowance would make possible a step forward in this direction.

Sincerely,

GEORGE K. TENOPIR,
Director of Financial Aid.

THE FIRST NATIONAL BANK,
Scottsboro, Ala., July 30, 1973.

HON. JAMES G. O'HARA,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: We are writing you with reference to the Student Aid Loan Program that is now in effect. We have handled a good many of these loans for students through the United Student Aid Funds and more recently, of course, through the regular Government Loan Program. It would appear that we are probably the only bank in northeast Alabama that has handled these student loans to any extent.

A communication we have from the United Student Aid Funds indicates that Congress is now considering some more changes in this program, one of which would be to eliminate the requirement that student borrowers must establish need in order to receive an interest subsidy. We would strongly recommend that this provision not be eliminated in any new legislation.

We have had some misgivings about some of the loans that we have made and that have been approved by the H.E.W. Department, in that it appeared that many families were able to take care of their own loan program without seeking the government subsidy. They did not actually need the loan, but by getting the loan through the Student Aid Program then it releases some funds for them to use elsewhere.

We would also submit that each time there has been a change in this program there has been a lot of confusion and delay caused. We would hope that if there are going to be any changes you would wait until after the rush is over for students going back to school this fall, and put it into effect in the middle of the year rather than at the beginning so that there will not be the delay and confusion that has happened before.

We would also submit that the interest rate on these loans is not realistic with the changes that take place from time to time. At times we have made loans when perhaps the interest rate was 8½ to 9%, and then later on the rates are changed and we have to accept considerably less. We do not feel that this is right. When we tie up our funds in stringent times we are entitled to the interest rate in effect at those times to compensate us for taking the risk of tying up the money for that period of time. We would certainly appreciate any consideration that might be made in regard to changing this feature of the program.

It will be appreciated if you would advise at your convenience in regard to the changes that might be made in the program and your position on same.

Thanking you and with best wishes, I am

Cordially yours,

JOHN W. GAY, *President.*

ALABAMA CITY BANK,
GADSDEN, ALA., *July 30, 1973.*

JAMES G. O'HARA,
Rayburn Building,
Washington, D. C.

DEAR SIR: This letter is in regard to Congress considering legislation to eliminate the requirement that student borrowers establish need in order to receive an interest subsidy.

I feel that if a student really needs a loan then he will be glad to indicate a need for the loan in order to receieve it.

During the time I have handled these loans, I have found many students apply who are not using these funds for education. The program is a good idea and many students are helped by the program: but so many students just apply for a loan because the money is easy to get and then it's harder to collect because they cannot repay the loan. Then this becomes an extra burden for the taxpayer to carry. I feel that even stricter rules should be established for these loans.

Sincerely,

MRS. PAT CHUMLEY,
Loan Officer.

THE FIRST NATIONAL BANK,
Scottsboro, Ala., July 30, 1973.

HON. JAMES ALLEN,
Senate Office Building,
Washington, D. C.

DEAR JIM: We have a bulletin from the United Student Aid Funds to the effect that Congress is considering legislation to eliminate the requirement that student borrowers must establish "need" in order to receive an interest subsidy. For your information, I am enclosing a copy of this bulletin which might not have reached your desk.

We have had some misgivings about the Student Aid Loan Program in that people who are able to send their children to school have still seemed to be able to put pressure on the banks to make loans for this purpose, which actually would release funds that the family has so that they could use them for noneducational purposes.

We have also had confusion each time that legislation is passed to change this program, as it seems to be done right at the last minute and this ties up the procedures. It would be our suggestion that this program be left alone as it is until further study is made and until further results are known. I would appreciate hearing from you in this regard.

Thanking you, and with personal regards and best wishes, I am
Cordially yours,

JOHN W. GAY, *President.*

MATANUSKA VALLEY BANK,
Anchorage, Alaska, July 24, 1973.

HON. JAMES G. O'HARA,
Chairman, House Special Subcommittee on Education,
Washington, D.C.

Dear Mr. O'Hara: Our Bank has actively participated in the Student Aid Guaranteed Program. We presently have the following loans:

In payoff status: Amount, $21,437.27; number of customers, 29; status, eligible for interest subsidy; amount, $45,388.61; number of customers, 34; status, not eligible for Federal benefits.

In interim status: Amount, $16,860.33; 17 loans; status, eligible at 6%; amount, $25,700.00; 14 loans; staus, eligible at 7%; amount, $99,657.24; 61 loans; status, not eligible.

Eligible loans appear to be approximately one-half as much in dollar volume as those loans that are not eligible for interest subsidy.

We believe that a showing of need for participation in the interest subsidy is practical and proper. We see no reason to eliminate such a requirement. We believe this is a good program and that it is servicing both low and middle income people in accordance with a need that exists to provide funding for all classes of people who may not be in a position to borrow for the term and in the amounts necessary, despite apparent wealth or financial stability.

We hope our information and opinion will be of assistance to you in your deliberations.

Very truly yours,

FRANK M. REED,
Senior Vice President.

[Mailgram]

REPRESENTATIVE JAMES G. O'HARA,
Chairman of the House Specials Subcommittee,
Washington, D.C.

Understand Congress comtemplating rescinding need requirement for qualification for Federal interest subsidy on guaranteed student loans, strongly urge you work to prevent such action. Would appeal philosophical base for guaranteed loan program would be abrogated by rescinding requirement for establishment of need.

L. E. WOODALL,
Arizona State Commission for Higher Education.

BRANDYWINE COLLEGE,
Wilmington, Del., July 17, 1973.

HON. JAMES G. O'HARA,
Washington, D. C.

DEAR SENATOR O'HARA: As Director of the Delaware Higher Education Loan Program, I would urge you to be very hesitant in changing the requirements for the program for September of 1973.

As you know, we had many problems last summer because of changes in laws and procedures made by the Educational Amendments of June, 1972.

The banks in Delaware have been very co-operative in working with the program and making funds available, anything done at this time to upset their procedure might be disastrous.

It is my personal feeling that the program should continue during this school year and if you are going to make any changes, consider them for the spring of 1974.

Very truly yours,

BERNARD J. DANEY, C.P.A.
Director, Delaware Higher Education Loan Program.

CENTRAL BEAUTY SCHOOL,
Augusta, Maine, July 30, 1973.

REPRESENTATIVE JAMES G. O'HARA,
Washington, D. C.

Dear Sir: I have had the opportunity to study and also work with the Student Aid Funds Program because many of our students take advantage and have had Student loans and are still taking advantage of them.

We are just ironing out some of the changes made in the past year and I sincerely feel it unwise to make other changes at the present time.

I would appreciate your consideration in this matter.

Truly yours,

CLEMENT E. FORTIN,
Financial Aid Officer.

COLUMBIA UNIVERSITY IN THE CITY OF NEW YORK,
New York, N. Y., July 23, 1973.

HON. JAMES G. O'HARA,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: I understand some consideration is being given to removing the applicant's justification of educational costs need from the present student loan program.

I urge the present requirement be allowed to remain as it is—namely that an applicant for Federal interest subsidy must explain his or her need. Without such requirement the program is subject to abuse by those applicants who do not need the subsidy.

Sincerely yours,

THOMAS A. MCGOEY,
Special Consultant to the President.

CONNECTICUT ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS,
July 16, 1973.

MR. DALLAS MARTIN,
President, National Association of Student Financial Aid Administrators

DEAR DALLAS: This letter is both a report and a request from the Connecticut Association of Student Financial Aid Administrators concerning the present status of the Guaranteed Insured Loan Program. That status can best be described as chaotic in Connecticut. The chaos can be identified from several different problems which may occur singly or in combination.

(a) Delay in Federal program allocations which has backlogged normal renewal processing.

(b) Receipt of incomplete or incorrect GILP applications—Form 1070 or Form 1260 missing or incorrect.

(c) Lack of Need Analysis information in many cases necessitating a request for PCS, FAS or some similar document.

(d) *Specifically—a lack of clear-cut written* directives, guidelines, procedures or whatever from USOE which spell out use of GILP funds to replace Parental Contribution. Many Aid Officers are wary or automatic Parental Contribution reductions to allow loan recommendations without such written encouragement and authorization from USOE.

(e) Presumably from fear of audits, a reluctance, in fact, a refusal by Bank Loan Officers to increase the FAO recommendation.

(f) A policy in Connecticut whereby Banks will not make non-subsidized loans.

The result is incredible confusion, a paper snarl and frustrated applicants.

There simply must be a way of resolving these problems and I present two proposals for your consideration.

(1) Urgent request to USOE to provide policy guidelines to meet difficulty described in d) above.

(2) Amend present legislation to provide for 15/15 rule—less than 15,000 adjusted effective income, no needs test, over 15,000 a needs test is required.

Your assistance will be appreciated.

Sincerely yours,

P. JEROME CUNNINGHAM, *President.*

BANK OF DELAWARE,
Wilmington, Del., July 30, 1973.

REPRESENTATIVE JAMES G. O'HARA,
House Special Subcommittee on Education,
Washington, D.C.

DEAR SIR: We understand that Congress is anticipating a change in the Guaranteed Student Loan Program that would rescind the proof of need regulation that was implemented several months ago. Our experience with this procedure has been favorable, and we feel that doing away with this at this time would be premature. There may be some imperfections in this method but it seems to be more effective than the procedures used previously. In other words, we feel that the "needs test" should be retained and modified as experience dictates.

Very truly yours,

WILLIAM F. BETTY, JR.,
Student Loan Administrator.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., July 25, 1973.

HON. JAMES G. O'HARA,
Chairman,
Special Committee on Education,
Committee on Education and Labor,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Recent published accounts indicate that a potentially serious loan crisis for college students exists. According to these accounts, the new stringent "needs test" for government subsidized student loans and the regulations issued by the Department of Health, Education and Welfare governing the test appear to be at fault.

You know, of course, that until March 1 of this year the Guaranteed Student Loan Program stated that students from families with an adjusted gross income of less than $15,000 a year would be eligible for subsidized loans. From 1965 to 1972, the program provided loans of nearly $6 billion to thousands of deserving students.

The needs test, however, appears to have changed the thrust of the loan program to the detriment of students from middle-income families. Many students whose families are in the $10,000 to $15,000 income range are discovering that they no longer qualify for government subsidized loans.

Speaking before the Senate Subcommittee on Education last month, Donald Payton, President of the National Council of Higher Education Loan Programs, presented some startling statistics. He noted that between March and May 1973, the number of students receiving subsidized loans declined 43% from the same period of 1972. While acknowledging that other factors might be involved, Mr. Payton attributed the large part of this decline to the new needs test requirement. To substantiate his contention, Mr. Payton presented a survey of one state revealing that nearly half of the students previously receiving subsidized loans in the state could not meet the new needs test. The survey indicated that 67% of those no longer eligible came from families with adjusted gross incomes under $12,000 annually.

Reports indicate that Connecticut students are handicapped because of the new regulations governing the needs test. For example, in one year alone the number of state students receiving guaranteed loans has droppd from 25,000 to 20,000. The total dollar amount of approved loans has decreased from $32.5 million in 1971–72 to $26 million this past year. Statistics supplied by Vincent J. Maiocco, Executive Director of the Connecticut Student Loan Foundation, support the contention that at least part of this decrease may have resulted from the new regulations. According to Mr. Maiocco, in the months of March through June 1971, the Foundation processed 5,549 loan applications for a total of $6,942,000. For the comparable time period in 1972, these figures rose to 6,858 applications for $8,773,000. However, for 1973—when the new regulations governing the needs test were in effect—these figures plummeted to only 2,182 applications for $1,835,000.

On July 26, the Subcommittee will conduct hearings on the Guaranteed Student Loan Program. If testimony and the Subcommittee's investigations indicate that the new needs test is responsible for the decline in the number of approved subsidized loans, I fervently hope that you will take appropriate action to correct the situation. We must ensure that students who come from middle-income families and are in obvious financial need can receive the funds necessary for a college education.

With best wishes,

Cordially,

ELLA GRASSO,
Member of Congress.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 4, 1973.

HON. JAMES G. O'HARA,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: I am writing on behalf of Mrs. Olive Adams, Educational Loan Administrator, Irwin Union Bank and Trust Company, Columbus, Indiana.

Mrs. Adams has forwarded me a copy of her letter to you concerning the need requirement for students to receive interest subsidies on guaranteed student loans, and I wish to express my support for the retention of the need requirement.

I would very much appreciate your consideration of Mrs. Adams' views, and your comments on this issue.

Thank you for your attention to this matter.

LEE H. HAMILTON, M.C.

IRWIN UNION BANK AND TRUST CO.,
Columbus, Ind., August 1, 1973.

REPRESENTATIVE JAMES G. O'HARA,
Washington, D. C.

DEAR MR. O'HARA: We have been informed by the United Students Aid Fund organization that Congress is considering legislation to eliminate the requirement that student borrowers must establish need in order to receive interest subsidy on a guaranteed student loan. We participate with United Student Aid Fund and The Federally Insured Plan.

Financial institutions feel the guaranteed program should be a public service to those who really want an education and reach the pinnacle of success. However, due to family financial situations, the realization of their goals are not obtainable without outside assistance. Energetic and reasonably intelligent students should not be penalized from receiving an education because the parents have not attained financial success or are unwilling to assist them. However, there must be proof of need both from a moral and a practical standpoint. Without a controlled program, many loans would be used for non-educational purposes and defaults could increase substantially. Lenders would eventually be forced to place their own restrictions on guaranteed loans and in all probability, many would stop making loans altogether. Every effort is made by our bank to serve the students in our trading area who are to become the future leaders of America. We feel we have a civic and moral obligation to perpetuate our free enterprise system.

It is true the new regulations have imposed additional work on the colleges, as well as, the financial institutions, but additional subsidy is being received. This should be an incentive for the schools to help control the program and to take an interest in the students. This year we have found few students who have the need and have not received the recommendation they need. With the current test for need, it has become necessary, in some cases, for those parents with adequate financial security and stability to contribute a larger portion toward their children's education. We do not feel this to be sufficient justification for eliminating the test.

This does not seem to be the time to change this program drastically. We would prefer to see the needs test retained as a part of the educational program.

Although the above opinions and comments are those of Irwin Union Bank, we feel most financial institutions making loans for education will express similar feelings.

Sincerely,

OLIVE ADAMS,
Educational Loan Administrator.

INDIANA STATE CHAMBER OF COMMERCE, INC.,
Indianapolis, July 23, 1973.

HON. JAMES G. O'HARA,
Chairman, House Special Subcommittee on Education,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: It has been brought to our attention that legislation is before your committee which, if enacted, would eliminate the requirement that student borrowers must establish need in order to receive an interest subsidy on student loans.

The Indiana State Chamber of Commerce has been in the forefront of efforts to finance student loans for a long period of years. At one time we established our own Foundation to finance student loans and later merged this Foundation into the United Student Aid Funds, Inc. It was our belief then—and still is—that such aid should be administered on a needs basis to assist deserving students who do not otherwise have access to funds necessary to finance their education. To move away from this concept can only serve to dissipate the funds available for scholarship purposes and make a smaller amount available to those students truly in need.

We hope that you will support the continuation of the needs test as a necessary feature for fair administration of this program.

Cordially yours,

JOHN V. BARNETT,
Executive Vice President.

THE FIRST NATIONAL BANK,
West Union, Iowa, July 30, 1973.

REPRESENTATIVE JAMES G. O'HARA,
Chairman, Special Subcommittee on Education,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: I have been student loan officer in our bank for many years and am concerned of the news that Congress is considering legislation to eliminate the requirements that student borrowers must establish need in order to receive an interest subsidy loan.

It is without question that the bulk of our student loans have gone to students undeserving of interest benefits. Parent's incomes and net worths must be closely examined if this is to be a worthwhile program and one that can take pride of participating in.

Sincerely,

Bruce J. Crandall,
Vice President and Cashier.

Community State Bank,
Paton, Iowa, July 28, 1973.

Hon James G. O'Hara,
House of Representatives,
Washington, D.C.

Dear Mr. O'Hara: We understand that some consideration is being given to the present student loan programs of the federal government. Especially, changes are being considered relative to the new "needs factor" in the payment of the loan interest by the federal government. We have made student loans for a long time and in a majority of instances, the student or his family could have paid the interest.

In our opinion, the drop in loan applications, noticeable the past year has not to any great extent been caused by the more restrictive application.

We believe the needs test should be given a longer trial since it has been in force for only a short time. Actually, we are not sure that interest free loans are really necessary. Interest might just as well be included in the repayment note and eventually paid by the borrower.

Very truly yours,

D. L. Nuckolls, *President.*

The Harlan National Bank.
Harlan, Iowa, July 27, 1937.

Representative James O'Hara,
Washington, D.C.

Dear Representative O'Hara: We are in receipt of information regarding the student loan program and understand that your subcommittee on education is considering legislation to remove the requirement that student borrowers must establish need in order to receive the interest subsidy.

W have participated in this program for several years now and feel that it is a worthwhile program; however, we do believe that a need should be established before the student is eligible to receive the interest subsidy. Possibly the method of establishing need could be simplified, but we feel very strongly that some need should be established.

Thank you for your consideration.

Very truly yours,

Richard W. O'Bryan,
Assistant Vice President.

Johnson State College,
Johnson, Vt., July 20, 1937.

Nelson S. Scharadin,
Director, Loan Guarantee Division,
Vermont Student Assistance Corp.
Burlington, Vt.

Dear Nel: I am writing to provide my comments regarding the current method of processing the guaranteed insured student loan.

1. (a) Doing away with the arbitrary guideline of a $15,000 adjusted gross income as the cut-off point for federal interest benefit qualification is much more equitable.

(b) Allowing for the professional judgment of the college financial aid officer in recommending a loan that reflects the realistic family situation is a step in the right direction as BEOG, VSAC grants and *guaranteed loans* will be the primary aid sources for Vermont students in the future.

(c) However, this system breaks down because it does not allow the college to make a distinction between a loan recommendation and a recommendation for what portion of the loan should be eligible for federal interest benefits

The banks are hesitant to make a subjective decision regarding the interest benefits and they are using the college recommendation as a guideline. The aid officer is then faced with the problem that if he cannot recommend the student qualify for the interest benefits he might also be jeopardizing the student obtaining the loan from the bank.

The problem with the current procedure is the failure to realize that the banks will not make that subjective distinction between a loan recommendation and federal interest benefit qualification based on need. As I have been told by banks on several occasions the audit does not accept subjective decisions, it accepts only the figure the aid officer writes on the supplemental form. Thus the loan could be jeopardized if the aid officer cannot recommend federal interest benefits.)

A solution would seem to be a method whereby the college aid officer could indicate on the loan form a distinction between an amount recommended for loan and an amount recommended for interest benefits.

Another suggestion to make the system somewhat more efficient while at the same time reduce the volume of needless paperwork involved would be: assume need and federal interest benefit qualification for an adjusted gross income under $15,000, and then calling upon the aid officer to individually review those cases with an adjusted gross income over $15,000 and make a recommendation with regard to the interest benefits based on need.

3. I would also recommend that Vermont seriously consider raising the maximum amount of a guaranteed loan from $1,500 to $2,000 or even $2,500 to make it more consistent with the federally insured loan program. Given the trend of student financial aid toward federal and state basic entitlement grants and long-term guaranteed loans the loan program becomes increasingly more important to meet college costs if a student for some reason cannot secure enough grant money to cover the ever skyrocketing costs of education.

I hope you find these suggestions useful.

Sincerely,

JAMES S. FRY,
Associate Coordinator for Student Financial Aid.

[Mailgram]

SHAWNEE STATE BANK,
Shawnee, Kans., July 31, 1973.

Representative JAMES G. O'HARA,
Washington, D.C.

We feel strongly that the student loan needs test should be retained. Any amendments to be made after adequate trial.

C. H. PFLUMM, JR., *President.*

STATE BANK OF PLEVNA,
Plevna, Kans., July 30, 1973.

Representative JAMES G. O'HARA,
Chairman of the House Special Subcommittee on Education,
Washington, D. C.

DEAR REPRESENTATIVE O'HARA: It has been brought to my attention that legislation is being formulated to eliminate the requirement that student borrowers under the HEW Educational loans, must establish need in order to receive interest subsidy. I feel that the requirement, that requires them to establish need was good and that those students who are able to get their help from their families or otherwise should not be subsidized.

We would urge that you use your influence to keep this requirement in the program.

Sincerely yours,

L. C. GOODRICH, *President.*

LEXINGTON THEOLOGICAL SEMINARY,
Lexington, Ky., July 21, 1973.

Hon. JAMES G. O'HARA,
House of Representatives,
Washington, D.C.

DEAR MR. O'HARA: I am greatly disturbed by the proposed legislation to eliminate the requirement that student borrowers must establish need in order to receive an interest subsidy. In the first place, I think a student should establish need for the loan. I see no reason at all for providing an interest subsidy, certainly not in such an affluent society as we claim to have these days. A student in need should be able to borrow funds, but he should also be able to pay a minimum amount of interest. If, as was the case in the depression years of the 1930's, a student could borrow money and repay at the rate of 6% interest, certainly today he should be able to pay 3% to 4% interest. To eliminate the requirement that a student should establish need is ridiculous.

To eliminate the requirement of proof of need is not proper discipline for the students, it is not proper use of tax moneys, and it is not good business for the students or the public. I urge you to provide a sound basis for student aid and to eliminate any provisions which condone a welfare giveaway attitude, which kills incentive of the students and provides an economic atmosphere for the public that encourages negligence.

Very truly yours,

THOMAS F. HARLIN,
Comptroller-Treasurer.

THE LINDENWOOD COLLEGES,
St. Charles, Mo., July 30, 1973.

Hon. JAMES G. O'HARA,
Chairman, House Special Subcommittee on Education,
Washington, D. C.

DEAR CONGRESSMAN O'HARA: We understand that Congress is considering eliminating the need factor for student borrowers in order to receive an interest subsidy on Federally Insured Loans.

We hope that the regulation will not be changed. We find no reluctance on the part of students to agree to pay the interest if need does not exist. To change the regulations now would result in the kind of confusion we all experienced last summer.

Sincerely yours,

MARY YONKER,
Financial Aid Officer.

MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORP.,
Boston, Mass., July 18, 1973.

GUARANTEED STUDENT LOAN PROGRAM—PROBLEMS AND EFFECTS CAUSED BY NEW REGULATIONS AND PROPOSED SOLUTIONS

PROBLEMS

1. Major slow down in processing of loans by all parties.
2. Increased cost in processing to all parties.
3. Inability of many schools to perform needs test.
4. Unrealistic expected family contributions.
5. Resulting reduction in size of loans.
6. Refusal of lenders to lend where school gives negative recommendation.
7. Refusal of lender to exceed school's recommendation.

RESULTS

1. Many students without loans.
2. Many students with inadequate loans.

3. Many schools unable to cope with loan processing.

4. Many lenders fed up with paper work and considering withdrawal from program or limitations on participation.

5. Loan guarantying agencies in difficulty due to low volume and problems in maintaining lender support.

SOLUTIONS

1. Revoke needs test on loans up to $1500 where adjusted family income does not exceed $15,000.

2. Allow loans above $1500 or where adjusted income exceeds $15,000 if need is shown.

COMPARATIVE LOAN VOLUMES NUMBERS AND VALUES OF LOANS

Month	Numbers of loans		
	1971	1972	1973
March	414	402	86
April	463	568	352
May	1,028	1,231	996
June	2,965	3,723	1,975
Total	4,870	5,924	3,409

Note.—1973 down from 1972 (2,515)=42.4 percent. 1973 down from 1971 (1,461)=30.0 percent.

Month	Value of loans		
	1971	1972	1973
March	$383,580	$412,386	$105,470
April	505,515	668,529	454,512
May	1,165,234	1,486,565	1,355,708
June	3,303,095	4,407,904	2,744,239
Total	5,357,424	6,975,384	4,659,929

Note.—1973 down from 1972 ($2,315,455)=33.2 percent. 1973 down from 1971 ($697,495)=13.0 percent.

UNIVERSITY OF MAINE,
Portland, Maine, July 23, 1973.

Hon. JAMES G. O'HARA,
Chairman, House Special Subcommittee on Education,
Committee on Education and Labor,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: Enclosed is a statement prepared by my staff regarding problems associated with the changes in the Guaranteed Student Loan Program enacted by the Education Amendments of 1972.

It is my understanding that the House Special Subcommittee on Education will be holding hearings on this subject on July 25. We urge Congress to consider the problems associated with this program immediately in order that confusion can be avoided as the volume of applications for loans increases during the month of August.

We appreciate the concern of the House Subcommittee regarding this problem, and look forward to hearing of the results of the hearing.

Cordially,

DONALD R. MCNEILL, *Chancellor.*

Enclosure.

PROBLEMS CREATED BY CHANGES IN THE G. S. L. P., MADE BY THE EDUCATION AMENDMENT OF 1972

As a result of Congressional action during 1972, the Guaranteed Student Loan Program has undergone a number of changes creating confusion and dismay on the part of students, their families, universities and lending institutions alike. The effect of these changes has had an impact on all parties involved, but the bulk of the burden will develop during the next month when most of the loans for higher education will be made.

On a national standing, the applicants of the Guaranteed Student Loan Program have been confronted with many barriers:

1. The volume of loans being made has dropped considerably.

The decrease in Maine applicants in 1973 as compared to applicants in 1972: January–June 1972, 1,299; January–June 1973, 777.

2. The needs criteria as established by the amendments has limited the number of applicants receiving monies.

3. The status of the nation has put a tight rein on its economy which is being reflected by lending institutions, and

4. The misinterpretation by banks and other lending institutions of the new regulations governing the loans has added to the confusion.

The Guaranteed Student Loan changes have affected Maine's higher educational institutions to a great extent. Both state and private institutions have felt the drawbacks of the program since the changes went into effect.

At the University of Maine at Portland-Gorham, the program situation has noticeably reflected upon its applicants:

1. Lending institutions and banks have adopted a policy of not granting unsubsidized or partially subsidized loans due to extra work involved in the collection of interest payments.

2. Sixteen percent of the applicants who were previously eligible, were deferred from receiving monies with the interest subsidy, thus these students have not been able to secure loans.

3. The work load in the UMPG financial aid office has increased considerably. Students are asking for more financial counseling and assistance, more forms must be completed and financial reviews must be made. This all being completed with no additional monies or staff.

The private institution has been confronted with many of the same problems. Bowdoin College's Financial Aid Director has stated that there is a great deal of problems in his office concerning the Guaranteed Student Loan changes:

1. The banks and lending institutions are also upholding their policy of not granting an unsubsidized loan.

2. The needs qualifications of the applications have decreased the number of recipients of the loan.

3. The complexity of the application form prompted a condensed publication of description and explanation for the applicant's understanding. This was completed with monies taken from the office's immediate budget and,

4. The changes have tripled the work and time that have been involved in the proper administration of the program.

A third institution that has been confronted with the Guaranteed Student Loan changes has had little problem with its administration. This problem is being overcome by the flexible interpretation that is being exercised concerning the changes. The institution has readjusted the sites of their need standards, thus allowing a majority of student applicants the unsubsidized loan. If a student's contribution is equal or less than the institution's annual budget, he is qualified to receive the full need. Again, the only existing problem is with the banks and lending institutions concerning the allowance of the subsidized loan to applicants with a greater family income of $15,000.

The effects of these changes are having a grave impact on many Maine students and families. The increased clerical burden, the lengthened processing time, and the decrease in the number of students able to secure these loans has lessened the usefulness of this program in financing a higher education in Maine.

The changes in the Guaranteed Student Loan Program have also promoted a different opinion from some of the higher education administrators. For example, a representative from the United Student Aid Fund office who handles the financial aid clerical work for the State of Maine, made the following statement:

1. As compared to the national standing, Maine banks are being very cooperative with the Guaranteed Student Loan changes.

2. The major problem is the added clerical and paper work overload that the changes have created.

3. The actual number of applicants has not changed, but, due to the clerical burden and lengthened processing time, the processing of many applications has not been completed.

4. The GSL changes have been an asset in that they are omitting the student who does not have a valid need for the loan.

With these differential opinions stated, the GSL amendments have created a problem. Possible solutions appear to lie in three areas:

1. Modification of the "needs test" sections of the law or the interpretation of the existing law;

2. Streamlining the clerical process; and

3. Increased incentives for banks and lending institutions to make the loans (perhaps as a result of activation of the Student Loan Marketing Association).

As indicated by the number of different opinions regarding the cause of the present problems, there is probably no one solution such as a simple change in the law, or a simple change in the regulations. For this reason, we welcome the attention of Congressional Committees to this situation, and hope that this leads to both immediate and long-range solutions.

Enclosed is a letter and added information on the GSL changes provided by Walter Moulton, Director of Student Aid at Bowdoin College in Brunswick, Maine.

BOWDOIN COLLEGE,
Brunswick, Maine, July 12, 1973.

MISS LYNN BAK,
Office of the Chancellor,
Portland, Maine

DEAR MISS BAK: Thank you for the opportunity to vent some of my frustration concerning the guaranteed student loan program. The changes in procedure caused by the Higher Education Act of 1972 have added considerably to our work load. Each application now takes three to four times as long to complete as it did in past years. Banks and educational institutions have had time to aclimate themselves to the new regulations but students and their parents are more confused than ever about the loan terms and the application process. The need "recommendation" is the most confusing element of all to students. Generally, their impression is that an unfavorable recommendation for subsidized interest means an adverse recommendation for the loan itself. Just to forestall confusion on these points, I have found it necessary to produce a brochure explaining the loan program (two copies enclosed). This is sent to many of our students for obvious reasons; it is also sent to every guaranteed loan applicant to assist them in the application process and explain the respective roles of College and lender. Incidentally, I am not above reminding the Congress that Bowdoin is paying for this publication without any administrative expense allowance from the feedral government. Although we will continue to bear this cost for the good of our students I do want it recognized that such cost does exist and is justifiable and necessary to the administration of the program.

From the loans I have processed to date, there appears to be several major problems:

1. I have already alluded to the confusion which exists about the program itself. It is compounded by the fact that different states have different names for the same commodity. That may seem like a minor thing but students have a hard time communicating with lenders when they often don't know what loan to ask for.

2. The application process is considerably more complicated than in years past. Currently a completed application has either three or four parts: the application form itself, a statement of adjusted family income, a loan application supplement (including the affidavit of educational purpose) and, for these requesting the interest subsidy, a statement of family income and assets. The lender supplies (or should supply) the first three parts; the educational institution supplies the income and asset statement. Application forms vary tremendously from state to state. In some areas they are combined in various ways and in other areas they are separate. Better than half of the loan applications I have received thus far are incomplete in one way or another. I am enclosing two copies of a letter I now use with almost 60% of the applications to bring them to completion. The additional correspondence

and the resulting delay are frustrating, unproductive and time consuming both for the student and for me. What is *desperately* needed is a uniform application form, one that applies to all federally insured and state guaranteed loan programs. It *must* include all four elements currently required to complete the application. The National Associate of Student Financial Aid Administrators (NASFAA) recommended and provided a model application that met these criteria to the Office of Education almost a year ago. Until it is approved and in use, confusion will prevail. This is a common sense matter; it is still inconceivable to me that this first order of business wasn't concluded prior to March first when the new regulations took effect.

3. The need recommendation is still a major stumbling block to the program. Some aid officers are extremely liberal in the calculation of need, others are conservative adopting a straight line approach and making no adjustment to the need figure resulting from the need analysis system their college uses. Although the lender has the final say in determining both the loan amount and the subsidy, many lenders will neither adjust the college's recommendation nor will they grant unsubsidized loans. This may be a perversion of the program but I can't fault lenders for their stance in this matter. Why should profit making institutions provide low interest, higher risk (look at the default rate), long term loans to students who don't "need" them to attend college? Despite the guarantee, the loans have an extremely low yield, can take between five and twenty years for repayment and are overloaded with administrative red tape for the amounts involved. As a banker, I don't think I would be all that keen about them either. There are sound and compelling reasons for granting student loans, too, but I don't think there is any question that they are less attractive to lenders now than they were previously. In a recent survey of Maine lenders (copy enclosed), thirty-two out of forty-eight indicated that they wouldn't make unsubsidized loans. Twenty-one others were undecided on this point but I am sure the no-loan ratio will hold even in this group. The plain fact is—no subsidy, no loan most of the time.

I am sorry if this letter has harped unduly on the shortcomings of the program. Guaranteed loans are an important source of aid to students. Much can be done to smooth the application process, reduce the administrative burden and eliminate the confusion which currently binds the program. I hope some of what I have written will be taken in a constructive way.

If there is anything else I can do, please let me know.

Sincerely yours,

WALTER H. MOULTON,
Director of Student Aid.

BOWDOIN COLLEGE,
DIRECTOR OF STUDENT AID,
Brunswick, Maine 04011.

GUARANTEED STUDENT LOANS

This notice is prepared especially for students who are applicants for Guaranteed Student Loans (GSLP) or Federally Insured Student Loans (FISL) and includes information about the terms of the loan, interest benefits, the application process and current federal regulations governing deferment and repayment. Although such information is usually available from the lender, there is still some confusion about the various educational loan programs in existence. We hope this notice will help clarify matters for students and their parents.

Guaranteed Student Loans—Loans are availalbe to students attending most post-secondary institutions on a full or part-time basis under terms established in the Higher Education Act of 1965 as revised by the Education Amendments of 1972. Loan funds are provided by private sources such as banks, credit unions, savings and loan association, insurance companies, educational institutions, etc. All of the loans are guaranteed, that is, repayment of the loan to the lender in instances where the borrower defaults for any reason. In those states where the guarantee is supplied by the state itself through one of its agencies or through a private non-profit corporation acting on behalf of the state, the term "Guaranteed Student Loan (GSLP)" is ordinarily used to identify the program. In those states where there is no provision for a state guarantee, the federal government assures the lender directly of reimbursement in the event of default and the term "Federally Insured Student Loan (FISL)" applies.

Loan Terms—The amount a student may borrow will vary from state to state but is ultimately dependent upon the willingness of the lender to advance funds. No lender is required to participate in this program and lenders will establish their own criteria for borrower eligibility and loan limits. Loans of $1000 per academic year are readily obtainable and $1500 is a common maximum with most lenders. In a few states, and in states where the federal government provides the guarantee directly, $2500 per year is the legal maximum. Few lenders will advance this amount in one year unless the circumstances are quite unusual. For an undergraduate career, the student may borrow a total of $7500, and the limit increases to $10,000 for graduate or professional study. No repayment of the loan is required while the borrower is attending college or graduate school and for between 9 and 12 months after the borrower ceases to be a student. Further deferment of payment is possible for up to three years of military, Peace Corps or Vista service. The repayment period can extend to a maximum of ten years, however payments of $360 per year as required. The student may choose to pay the loan back at a faster rate without penalty.

Interest—The interest rate on guaranteed loans is 7% simple interest per year. The student borrower is responsible for interest charges during the repayment period. Under certain circumstances, however, the federal government will pay the interest on behalf of the student while he is attending college and during other periods when repayment of the loan is deferred. To qualify for this federal interest subsidy, the student must demonstrate that he "needs" the loan to attend college. Federal regulations call for a recommendation regarding financial need to be made by the educational institution the student is attending or plans to attend. This means that the student and/or his parents must file whatever statements of family income and assets the college may require to demonstrate financial need. If the college recommends the loan on a need basis, the federal government will pay the interest due on the student prior to the repayment period. Although the educational institution recommends need, final determination of the interest subsidy is the prerogative of the lender, who may accept, alter or reject the college's recommendation. In the final analysis, the lender alone decides the amount of the loan, whether it will be granted, and whether the interest subsidy will apply. The college's need recommendation affects only the interest, not the loan itself. If the student does not wish to apply for the interest subsidy, he may still apply for the loan. No family income and asset statement is required in this case, but the student will be responsible for interest payments from the time the loan is dispersed.

Application for Guaranteed Student Loans:

A. Eligibility—Any student who is a citizen or national of the United States or is in the United States for other than a temporary purpose and who has been accepted for enrollment or who is in attendance at an eligible school (this includes most colleges, universities, nursing and vocational and technical schools) may apply for a guaranteed student loan.

B. The Application Process—The student borrower obtains loan application forms and instructions for completing them from a lender who has agreed to make the loan. Currently, the application has three parts: the loan application itself, a statement of adjusted family income and an affidavit of educational purpose. In some states the three parts may be on separate forms, in other states they are combined. The student borrower should complete all three parts of the application first and then send them to the Student Aid Office, Bowdoin College, Brunswick, Maine 04011. The affidavit portion of the application includes a need recommendation section the College must complete. If the student is applying for the federal interest subsidy, the College will supply the required statement of family income and assets which should also be completed and returned directly to the Aid Office. If the student does not wish to apply for the federal interest subsidy, he should indicate this at the time he sends the application to Bowdoin. In this case, no statement of family income and assets is required. When the College has completed the need recommendation section, the application form or forms will be returned to the student who then submits them to the lender.

General Information for Borrowers—Guaranteed Student Loans and/or Federally Insured Loans should not be confused with loan offers made directly to aid recipients at Bowdoin College. Although some of the terms and benefits are similar, Bowdoin loans are provided from funds held by the College and are available only through the Student Aid Office as part of the financial aid program. Whether a student has received aid at Bowdoin or not, he may apply for a Guaranteed Student Loan from any non-college lender.

It is the student's responsibility to find a lender who is willing to provide the loan he wants. Not all lending institutions participate in this program and most lenders restrict the amount of money that they will make available for low interest student loans in one way or another. The best place to start is the lending institution where the student and/or his family usually do their banking business. Occasionally it is necessary for a student to contact several lenders before he can secure the desired loan.

It usually takes anywhere from three to six weeks to complete the application process. Bowdoin does not grant extensions of billing deadlines for guaranteed loans still in process; students who plan to use guaranteed loans to meet college bills due on September 1 or January 15, must apply early enough to obtain funds at the proper time. The Student Aid Office will process guaranteed loans on a regular schedule about once each week during the summer vacation period. At other times, loans will be processed as the regular work schedule of the Aid Office permits. That schedule is particularly heavy in the months of March, April, May and June. Need analysis for Bowdoin aid candidates takes priority at this time of year; guaranteed loan applications submitted during these months (for the following academic year) will normally be processed after June first. This still allows sufficient time for completion of the loan application during the summer months.

When submitting a guaranteed loan application to the Student Aid Office, please be sure it is complete. For the College to make its recommendation, certain kinds of information are critical. The amount of the loan must be specified; it must be clear whether the student is applying for the federal interest subsidy or not; the statement of adjusted family income should be completed; a statement of family income and assets must be on file in the Student Aid Office.

We hope the information supplied here will help you to apply and obtain a guaranteed student loan with a maximum of ease and a minimum of confusion. Please let me know if there are other ways in which we can assist you.

WALTER H. MOULTON,
Director of Student Aid.

BOWDOIN COLLEGE,
DIRECTOR OF STUDENT AID,
Brunswick, Maine.

We have received your application for a guaranteed loan. Because of several changes in federal law, the College is now required to provide certain kinds of information on all candidates for Guaranteed Student Loans (GSLP) or Federally Insured Student Loans (FISL). The enclosed pamphlet will describe these loans and provide basic information about the application process. We cannot complete your loan application until you comply with the instructions checked below:

1. ☐ Indicate the amount of loan you are requesting $_________
2. ☐ Complete the loan application and return it to the Student Aid Office.
3. ☐ Complete the "Statement of Adjusted Family Income" and return it to the Student Aid Office.
4. ☐ Complete three (3) copies of the "Student Loan Application Supplement" and return them to the Student Aid Office. These forms are available from the *lender* and include the required affidavit of educational purpose. They *must* be completed by the College before any guaranteed loan can be issued.
5. ☐ Indicate whether you are applying for the federal interest subsidy:

Yes ______ No ______

If you check "yes" you must complete the enclosed *Financial Aid Statement* and return it to the Student Aid Office so we can make the required need recommendation. If you check "no" the *Statement* is not required but you will be charged interest from the date the loan is issued.

Please return this letter along with any additional forms that are necessary to the Student Aid Office, Bowdoin College, Brunswick, Maine 04011. As soon as we hear from you, we will complete your loan application and return it to you.

Sincerely yours,

WALTER H. MOULTON,
Director of Student Aid.

RESULT OF APRIL 9, 1973 SURVEY

1. Has your institution set individual maximum limits for student loans per year?

Yes: 66; No: 11.

1—could change at discretion of directors.

2. If so, what are they?

Freshmen:

None for freshmen—13.
$1,000—37.
$1,500—21.
$2,500—1.
School's recommendation—1.

Upper Classmen:

$1,000—36.
$1,500—25.
$2,500—3.
$4,500—1.
School's recommendation—1.

Graduate Student:

$1,000—19.
$1,500—36.
$2,000—1.
$2,500—3.
$10,000—1.

3. Under unusual circumstances will you exceed these limits, if less than allowable maximums

Yes—35; No—32; 1—Sometimes.

1, possibly. I believe circumstances would be researched prior to commitment.

4. Does your institution loan only to customers

Yes: 46; No: 18.

Only to children in our field of membership, present loan or savings customers and/or area high school graduates.

5. Are there ever any exceptions made to this policy

Yes: 15; No: 39.

Immediate relatives. Exceptions made to every policy; we expect them to be *rare* and decided on an individual basis.

If yes, please explain—We try to use each applicant as fairly as possible.

Unsual circumstances.

Our regulations permit us to lend to members only.

Need—deserving.

Priority to own customers, then non-customers.

Depends on individual situation.

We review every application on its own merits.

Individual circumstances.

To worthy & deserving students.

Occasionally, we have made a loan to a student who is not a customer of this bank.

A local worthy student whose parents have no banking relationship.

New people in area, potential customers, good credit at last location.

Unusual circumstances.

Local students whose parents have no bank connections anywhere.

In case of dire need where the family has no banking connection at all.

If other smaller credit unions cannot handle, we will consider.

6. Does your institution set aside an amount each year for student loans?

Yes: 11; No: 61.

Undecided (under consideration).

If yes, how much:

$100,000.

15 per cent.

$450,000.

$25,000.

$10,000 plus renewals.

25 new loans each year.

1 percent of deposits.

$75,000.

$225,000 total, presently at $147,000.

$20,000 this year and last year.

$25,000 for new students and we continue to carry students through which are already in program.

$100,000.

$50,000 (1973).

7. Will your institution make non-subsidized loans to students under the new regulations?

Yes: 16; No: 32; Undecided: 21.

Reluctantly.

Not discussed.

8. Any comments you may wish to make regarding the program:

Our charter limits are that we can only serve members of our credit union—i.e., persons residing within the physical boundaries of our Church Parish qualify for membership.

Too many first-year students drop out. Too many graduates are reluctant to repay loans.

In one or two cases we have granted a $1,500 loan to a graduate student.

We are not being notified in some cases when a student is no longer attending school.

We would appreciate receiving all published information relating to the State of Maine's regulations governing the USAF program. If this information can be found in statute books, please make reference.

Would like to see forms consolidated. We also hope that the Attorney General's office actively pursue default claims.

First, the interest rate should be more than 7%. At that rate, banks are losing money. Furthermore, there is too much paper work involved. Also, there should be a home where banks could sell the present loans, so as to have more available money for new borrowers.

Savings banks could increase participation in program—compare total student loans to deposits—recent Federal cutbacks will result in excessive demands on banks this year.

I find we do not get all the current information on changes, etc., including needed forms.

As stated above, we have no annual amount set for each year. The aggregate amount which we want in these loans is $225,000. According to last year's figures, we will be at this amount by the end of this year.

We are concerned with the amount of paper work involved in the program, and also being involved with various interest rates when the loans are being repaid.

The increase in the limits, authorized by the State Board of Education, will probably cause only confusion; no lender with whom I've talked has any intention of granting loans in the higher amounts and most, like us, it seems, are looking for ways to cut back.

New legislation should be written which would enable the lender to obtain a better return (such as a fee), and to have more independent control over their loans with respect to grace periods, extension and deferment privileges, etc.

Savings banks should handle more of these loans, since they hold the bulk of the deposits.

How about a seminar on applying for interest benefits—other institution controls, etc.

Too much governmental red tape.

We feel that any student coming out of school cannot carry a loan for more than $1,000 a year comfortably. Many in payout are finding it difficult to meet payments for that much!

It would be appreciated if surveys of this type are conducted in the future that only one be sent to each bank. Most of our branches have received this questionnaire and this has resulted in numerous & unnecessary telephone calls and explanations.

We feel that the Education Amendments of 1972, although placing a large burden on the colleges, have made this a very time consuming program for the banks.

We will not exceed the amount determined by the financial aid officer of the school. Will loan lesser of amount recommended by school or $1,000.

By limiting to $1,000 per year, we are able to help more students. Also, by limiting, the debt is not so great when they graduate and have to repay. Students seem to have other sources through work or assistance from parents.

Although we have not set any maximum limits at this time, it is doubtful that we would make student loans in excess of $1500 during any one year.

9. *Do you want a copy of the results of this questionnaire?*

Yes: 66; No: 8.

THE MERRILL TRUST CO.,
Bangor, Maine, July 31, 1973.

Representative JAMES G. O'HARA,
Chairman Special Subcommittee on Education,
Washington, D. C.

DEAR REPRESENTATIVE O'HARA: I am writing in response to a bulletin which I received this morning from United Student Aid Funds, Inc. concerning legislation currently being considered that would eliminate the requirement that student borrowers must establish need in order to receive interest subsidy.

If such legislation is being considered because opponents to the needs test feel that the "test inhibits applications for loans, slows down processing, and reduces loan volume", I feel that further study is strongly advisable. One immediate question that I have is who specifically are the opponents to the needs test?

As a student loan officer, I can't see where the needs test has significantly lowered our loan volume or slowed down our processing of applications. The major source of error lies in the schools processing the supplemental applications. In many instances the schools are not properly completing the supplements; therefore, the Banks have to return the application to the school for adjustment. The schools are usually quite prompt in their refiguring or readjusting of the supplements. I wonder if the schools are actually utilizing the needs test as it was designed to be used.

In reality, I feel that once we have a properly completed application and supplement that the needs test really doesn't present a problem to the bank. Usually the school recommends an amount much higher than the student has requested. One major advantage for large families making an income of $20,000 per year is that some of these families now qualify for Federal Interest Subsidy. When a family has two or three children in school the costs are staggering, there is no reason why some of these families can't qualify for Interest Subsidy. The needs test helps these families.

Thus, in summary, before the needs test is done away with, I strongly recommend that a thorough study of the advantage and disadvantages be made.

If you have any questions, or if I can offer any assistance, please feel free to contact me.

Sincerely,

TIMOTHY L. HEALY,
Student Loan Officer.

MIDWAY NATIONAL BANK,
Saint Paul, Minn., July 30, 1973.

Representative JAMES G. O'HARA,
Washington, D. C.

DEAR MR. O'HARA: Presently, Congress is considering legislation to eliminate the requirement that student borrowers must establish need in order to receive an interest subsidy. The proposed legislation, in our jugment, would gravely impair the usefullness of the entire program.

We feel that proof of need is both a moral and practical necessity for any effective student aid plan. Without such proof, many loans would be used for non-educational purposes, which many of them frequently were. On some occasions, prior to March 1, 1973, students slipped during the interview, and revealed that they wanted the loan for such purposes as: a) To buy a car,

b) Repair their automobile, c) To get married, d) To buy their girl friend a diamond, e) To help out his friend who can't get a loan on his own, or f) To consolidate bills. We have been pleased with the results of the need test since March 1, 1973. Students who originally claimed they needed the maximum loan were quick to settle for the lesser amount that the school recommended when they were told that they had to pay the interest on the difference. Other students have changed their mind about getting a loan when they are handed a financial statement to fill out. I can interpret this to only mean that they never needed the loan.

The student loan program is an excellent function in our society, but it can be abused only too easily at the expense of the taxpayer. Please consider our judgment and testimony in your decisions.

Sincerely,

LARRY T. DANKERT,
Loan Officer.

THE FIRST NATIONAL BANK,
Farmington, Minn., July 30, 1973.

Representative JAMES G. O'HARA
Chairman, House Special Subcommittee on Education,
Washington, D. C.

DEAR MR. O'HARA: We have received information indicating that Congress is considering legislation to eliminate the requirement that student borrowers establish a need in order to obtain an interest subsidized loan. The requirement was incorporated into the program in March 1973 and we believe it serves a most vital purpose.

If has been our experience that those students, who need the program have few problems in proving their need of assistance. I would like to suggest that the financial aid officers be granted more realistic guidelines. Too often, the student borrower and his/her parent is required to feed a paraiste computer center located in a far off state with fees and little to no realistic approach to a situation. Example—Review a parent confidential statement to be prepared for the college scholarship service.

We believe the present program is reasonably effective and if the school financial aid officers guidelines are modified to alleviate the parasites of the program, it will operate to the benefit of all concerned. I trust that this letter will assist you in your endeavor to improve a program so vital to our youth and society in general.

Yours very truly,

L. C. NOVITZKI,
Vice President.

BANK OF STE. GENEVIEVE,
Ste. Genevieve, Mo., July 30, 1973.

Representative JAMES G. O'HARA,
Washington, D. C.

HON. JAMES G. O'HARA: In the past, we have placed strong emphasis on the need when considering loan application for student purposes. We earnestly urge your committee to continue the retention of the needs test because without this requirement, it would surely jeopardize the program on the local level.

Very truly yours,

HAROLD J. UDING,
Executive Vice President.

THE MERCANTILE BANK,
Louisiana, Mo., July 30, 1973.

JAMES G. O'HARA,
Representative, Chairman, House Special Committee on Education,
Washington, D. C.

MR. O'HARA: Our bank would be opposed to legislation, that would discard the present "Needs Test" on Student Loans. Personally I would be in favor of the Student or Parents paying all the interest on any Student Guaranteed loan, and the Government only paying a subsidy over the 7% rate.

Prior to the needs test, we have seen parents, under the $15,000.00 limit, not make any effort to contribute to their son's or daughter's education. Their feeling being, "why should we use our money to send "Johnny" or "Mary" to school, when the U. S. Government is willing to pay the interest."

Perhaps, the need test does require more time for the schools and lenders to process the necessary paper and forms. However, we feel that the needy students and the tax-payers will benefit from the needs test.

Sincerely,

ROBERT H. INCE, *Cashier.*

THE EXCHANGE NATIONAL BANK,
Jefferson City, Mo., July 27, 1973.

Representative JAMES G. O'HARA,
Washington, D. C.

DEAR SIR: It has been reported that Congress is considering legislation eliminating the requirement that borrowers must establish need in order to receive an interest subsidy on a student loan. I disagree with this line of thinking and hope that they will continue with the requirement presently in effect. This constant change of regulation poses a great burden upon the lenders and discourages participation in this program.

The whole interest subsidy should instead be dropped and the student should at least pay the interest on his loans while in school and during the repayment period. If constant meddling in this program continues, you are going to find that more and more institutions are going to withdraw from the program.

Sincerely yours,

HARRY A. BECK, JR.,
Vice President.

MISSOURI CENTRAL CREDIT UNION,
Kansas City, Mo., July 30, 1973.

Hon. JAMES G. O'HARA,
Washington, D. C.

DEAR CONGRESSMAN: In response to our feeling of civic responsibility, we have allocated $500,000 for student loans. In view of the scarcity of money and the low return on these loans, we are most anxious to see that these funds are used only where a proven need exists. We most emphatically subscribe to the thoughts expressed in the attached release from the USAF.

Your assistance is solicited in retaining the present procedures of making funds available only under closes crutiny. It will be of immense value to the schools, the public, the students, the tenders, and the whole program in general.

Sincerely yours,

L. A. RICHMOND, *President.*

Enclosure.

URGENT BULLETIN

As you read this, Congress is considering legislation to eliminate the requirement that student borrowers must establish need in order to receive an interest subsidy. The proposed legislation, in our judgment, would gravely impair the usefulness of the entire program. You will find the relevent facts in this Bulletin. When you have read it, we hope you will communicate at once with both your own Congressman and the Chairman of the House Special Subcommittee on Education.

Here is the story:

Until last year, guaranteed loans were regarded as loans of convenience. Any student whose adjusted family income was less than $15,000 a year would have his loan interest paid by the government while he was in school.

United Student Aid Funds had insisted that proof of need was both a moral and a practical necessity for any effective student aid plan. Without such proof, we said, many loans would be used for non-educational purposes. The program, uncontrolled, would grow to a point where it was more a boondoggle than a public service. In such a climate, defaults would be bound to rise, and with them the cost of the program to the taxpayer. Eventually, the lenders would either put their own restriction on guaranteed loans, or stop making the loans altogether.

These predictions for a time met considerable skepticism, but by 1972 they had proved only too accurate. Congress at that time reversed course, and provided that a student who wishes to take out a guaranteed loan must show that he really needs the money for educational costs if he is to receive a Federal interest subsidy.

Though the needs test has been in effect only since March 1—surely an inadequate trial period—some are existing intense pressure on Congress to roll it back before recessing next month. They are arguing vigorously that a needs test inhibits applications for loans, slows down processing, and reduces loan volume.

It is true that the new regulations require a more careful examination of applications, and that applications take longer to go through the pipe-line. This is undoubtedly one reason for a drop in loan volume from March through June. In addition, there were delays in making funds for other Federal aid programs available. As a result of this uncertainty, many students postponed applying for loans.

There is no evidence, however, that students who truly need the money for college are being deterred from applying for it simply because they have to spell out the need. Nor has it been shown that even the higher-income students are not applying. Indeed, our spot check of representative schools throughout the country shows only 20.8% with any drop at all in loan volume over the past four months, while in 79.2% the volume is unchanged or rising. Our own experience from March 1 through June 30 indicates about a 23% drop in volume. Could this drop mean that some of these loans are simply not needed A former President of the National Association of Student Financial Aid Administrators estimates that about 15% of the borrowers have been taking the program for a ride.

In the past year Congress has made basic changes in the guaranteed loan program three times. Each change has brought its own confusion and delay. To change again now would not simplify matters—it would bring them close to chaos. If there are iniquities in the current needs test, then they should be corrected in due course through regulations. To discard a needed reform after only four months, in favor of an arrangement that had proved impractical over a period of seven years, would, we believe, be a blunder for which the guaranteed loan program would pay dearly in the years ahead. Officials from a number of states—Nevada, Delaware, Alaska, Maryland, Maine, South Carolina, and Virginia among them—have informed us that they too oppose any legislative change at this time.

The Chairman of the House Special Subcommittee on Education is Representative James G. O'Hara, 2241 Rayburn Building, Washington, D. C. 20515. If you agree that this is not the time to make another change, we hope you will communicate with him at once by letter, telegram, or telephone, and insist that the needs test be retained.

The situation is urgent. Congress is expected to take action one way or the other before it recesses in August. So do not wait even overnight. Send your message today.

[Maligram]

Hon. JAMES G. O'HARA,
Washington, D.C.

As administering agency in Nevada for the Guaranteed Student Loan Program, we are concerned that serious thought is being given now to changing the rules for this program. Congress last summer made major and necessary changes in the law. The first set of regulations then generated massive confusion so that further congressional action was needed to bail out the program. New regulations were issued to be effective March 1 and the whole program is just beginning to work its way out of a morass of confusion and excess paper work. To react to temporarily lowered loan volume by another change in the law six weeks before school opens would in our judgement be a monumental mistake. Others including many lenders in the program share this view. Our urgent request is that Congress not now respond to temporary processing difficulties by prescribing the whole new set of rules which some are requesting. Such an unwise and unnecessary step would be a major setback to this very worthwhile program.

JOHN R. GAMBLE,
Administrator Guaranteed Student Loan Program.

STATEMENT OF JOHN GAMBLE, DEPUTY SUPERINTENDENT, NEVADA STATE DEPARTMENT OF EDUCATION

We feel that the guaranteed student loan program in Nevada is progressing very satisfactorily. It is evident that this confidence is also exhibited by the State Legislature in that they have consistently appropriated reserve funds for the program in the full amount requested.

The new Regulations concerning a requirement for a "needs test" has created a temporary slowdown in loan approvals primarily because of the longer period of time for an applicant to qualify for a loan. We were concerned originally about the additional detail required. But we are not geared up to handle this in an efficient manner and we feel it will be a beneficial addition in the long run because (1) equitably identify those borrowers who are eligible for the federal interest benefits (2) it will guide both the school financial aid officers and the lending institution officers in arriving at a reasonable amount needed by the student to pursue his or her educational goals.

Previously students not "in need" were granted interest subsidized loans under the provisions of the Act. The Amendments of 1972 corrected this abuse by providing a "need" criteria and a recommendation from the educational institution.

Our default ratio in Nevada has always been among the lowest in the country and even though it has risen over the last 18 months this is mainly a reflection of our increased volume during that period.

As far as the program is concerned in Nevada, the Amendments of 1972 and the current regulations for the program do indeed provide sufficient flexibility for the school and the lender to administer the program in a way that is imminently fairer. Also previous abuses will be eliminated and federal tax dollar savings will result which can be put to better use for other educational programs.

The United Student Aid Fund administers our program in Nevada. This has proven to be an efficient and worthwhile procedure for us.

[Telegram]

AMITYVILLE, N.Y.

Representative JAMES G. O'HARA,
Capitol Hill, D.C.

Establishing need is causing unnecessary burdensome problems to our school and our students. Please eliminate the need requirements for student loans.

JOSEPH P. DILIBERTO
President, Island Drafting and Technical Institute.

[Telegram]

NOTRE DAME, IND.

Capitol Hill, D.C.
Representative JAMES G. O'HARA,

Urgently request present need analysis for GSLP be retained.

MRS. JOHN MCCAUSLIN,
Director of Financial Aids.

[Telegram]

HAZELTON, PA.

Hon. JAMES G. O'HAIA,
Chairman, Special Subcommitee on Education,
House of Representatives
Washington, D.C.

Urge repeal of need test for student loans. If inforced cannot continue education and will be unable to repay loan.

AVA FALTZ.

Auburn, Maine, July 30, 1973.

Representative JAMES G. O'HARA,
Chairman of the House Special Subcommittee on Education,
Washington, D. C.

DEAR REPRESENTATIVE O'HARA: I am writing you in your capacity as Chairman of the House Special Subcommittee on Education.

It is my understanding that your Committee is considering the possible elimination of the "needs test" under the student loan plan.

As one who has had long experience in making loans to college students, may I strongly urge that the needs test be retained. In my judgment the needs test is essential if we are to have an effective student aid plan. Without proof of need many loans will be used for non-educational purposes, thus thwarting the efforts of Congress to help needy students secure a college education.

Sincerely yours,

CHARLES F. PHILLIPS.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., July 12, 1973.

Hon. JAMES G. O'HARA,
Chairman, Special Education Subcommittee, House Education and Labor Committee, Washington, D.C.

DEAR CHAIRMAN O'HARA: I understand you are considering the matter of student loans and particularly the effect the needs test is having on potential recipients.

As the attached will indicate, I have received a communication from the Pennsylvania Higher Education Assistance Agency, wherein they have furnished me with statistics to support their contention the new Federal regulations will result in a drastic dropoff in loan volume in Pennsylvania.

I would greatly appreciate whatever consideration you might give this information in the course of your deliberations and I would welcome any comments you may have to offer in response.

Sincerely,

HERMAN T. SCHNEEBELI, M. C.
Pennsylvania.

Enclosure:

[Telegram]

HARRISBURG, PA.

HERMAN T. SCHNEEBELI,
Capitol Hill, D.C.

Pa. residents not getting student loans again this year. Last year dropped off due to misunderstandings of educational amendments. Confusion among your constituents was critical in August prior to their departure for college. Still confusion this year with law. As interpretation requires stringent needs test for loans. New Federal requirements hurting participation by lenders. Schools and lenders lack capability to handle workload increase under needs analysis concept. Students unaware of new requirements. Strongly urge your support in changing law so students with adjusted family incomes under $15,000 can once again receive interest subsidy without needs analysis requirement. Here is proof of drastic dropoff in loan volume in the program in Pennsylvania since new Federal regulations effective March 1973: Student loans guaranteed in April, May and June:

1970 to 1971, 22,700, $28,124,000; 1971 to 1972, 19,800, $25,148,000; 1972 to 1973, 4,917, $5,931,000.

KENNETH R. REEHER,
Executive Director,
Pennsylvania Higher Education Assistance Agency.

THE PENNSYLVANIA STATE UNIVERSITY,
University Park, Pa., July 23, 1973.

MR. JIM HARRISON,
Director, Special Committee on Education,
House Committee on Education and Labor,
Washington, D.C.

DEAR JIM: I am attaching data reflecting our recent experience with the Guaranteed Loan Program. The paper includes:

1. our findings on the impact of the needs test on the first 1000 cases processed through our Student Financial Aid office.
2. our loan recommendations by income class and family size.
3. an analysis of applicants for whom we determine that there is no financial need. (Since "no need" was our most common recommendation, these applicants have been treated separately.)
4. a sampling of letters from disappointed families.

We think our data justifies elimination of the "needs test". We doubt that the "abuses" of the Guaranteed Loan Program can justify the hardship to which we are putting these families.

If a formal change of the Guaranteed Loan Program is impractical at this late date, we would recommend that the U. S. Office of Education permit the Institution of Higher Education to include both the "expected family contribution" and the "need" established by the CSS analysis in its recommendation to the lender.

As our analysis indicates, middle-class families are accustomed to living on "future income." The expected family contribution identified by the needs test has been earmarked for other necessities by many families. We think they should be permitted to borrow in order to pay for the college education of their children.

Since I will be away for the next two weeks, please call Mr. John Brugel (814/865-6301), Penn State's Financial Aid Officer, if there is more information that will be helpful.

Sincerely,

NEWTON O. CATTELL.

Enclosure.

GUARANTEED STUDENT LOANS

(By John Brugel, Gretchen Hofmann)

The Office of Student Aid at The Pennsylvania State University, in compliance with the Higher Education Amendments of 1972, has been conducting a need analysis to determine eligibility for the Guaranteed Student Loan effective March 1, 1973. The following discussion and data reflect the experience of this office to date.

DISCUSSION

The concept of requiring a "needs test" for a subsidized Guaranteed Student Loan became operational in March of 1973. The Pennsylvania State University has utilized the needs analysis system of the College Scholarship Service to determine the "recommended loan amount." The difficulties associated with this program are as follows:

1. Students, for the most part, generally are uninformed about the changes with regard to this program, and consequently do not submit the necessary financial information in order that the institution may process expeditiously the loan application.
2. The parents of many students feel that it is inappropriate to associate a "need test" with a loan program of this type.
3. There is a lack of consensus among the lending institutions with regard to how the program should be handled.
4. Many lending institutions do not exercise their right to change the recommended loan amounts.
5. Some lending institutions have declared arbitrarily that they will issue no new Guaranteed Loans to incoming freshmen.
6. Some lending institutions have decided that they will issue no nonsubsidized loans regardless of the circumstances surrounding the individual case.

7. A number of banks have taken the position that it is the institution's responsibility to provide a favorable recommendation with regard to this loan. This position requires the Financial Aid Officer either to assign capriciously a recommended loan amount, even though it cannot be justified with regard to documented need, or to see a significant number of students denied access to the necessary funding for their educational experience. This seeming contradiction will be addressed in subsequent paragraphs.

8. Some lending institutions misrepresent the degree of flexibility which the law provides them and state that the institution of higher learning has the responsibility to make all adjustments and that the bank "can do nothing" if the recommended loan amount is low.

9. It is very apparent that the middle-income families of Pennsylvania have established consumer patterns which are inconsistent with the underlying assumptions of need analysis. Need analysis assumes that discretionary income (that income available above basic maintenance costs) will be used to "purchase" higher education. This assumption causes no difficulty with low-income families inasmuch as need analysis typically indicates either a zero or very small contribution towards educational costs. The middle-income group, however, is hit particularly hard by need analysis assumptions inasmuch as they have established consumer patterns which often are the direct antithesis to the assumptions of need analysis. These families, in many cases, do not have the amount of "discretionary income" which is anticipated by the College Scholarship Service need analysis. This is due most likely to the fact that these families are living on "future income" and do not have the financial capability to contribute to the degree expected. This contention is supported partially by the data contained in a CSS study conducted by the Western Regional Office of the College Entrance Examination Board. The study, entitled *Student Financing of Higher Education in Washington*, indicates in Appendix VIII, Table II, that there is considerable variation between the expected parental contribution and the contribution reported by the student. These data show that the percent of parental support received as opposed to the expected ranges from 22% for a community college male student to 67.5% for a female student at a four-year private institution. The mean contribution reported by students averaged less than 40% of the amount expected by CSS.

The introduction of need analysis in regard to the Guaranteed Student Loan, in effect, proclaims to many middle-income families that not only are they ineligible for a subsidized loan, but also they must bear the burden of the position taken by some lending institutions that a non-subsidized loan also is unavailable to them. For those families caught in the "need analysis" bind, we find a situation which is inconsistent totally with the concept of extending higher education opportunity to all. It is our contention that the continuation of need analysis with regard to eligibility for Guaranteed Loans will preclude collegiate attendance for certain talented middle-income youth.

The basic rationale and conceptualization with regard to a needs analysis test for the Guaranteed Loan can be defended if, in fact, each of the parties involved, i.e., the institution of higher learning and the lending institutions, is capable of extreme flexibility. Institutions have been alerted through presentations by Office of Education personnel with regard to their liability if, in fact, they appear to be ignoring arbitrarily the recommendations provided by the needs test. On the other hand, lending institutions have stated that they will not, in many cases, advance funding to families receiving a zero recommendation. The lending institutions are being required to absorb the expense necessary for systematic interest billing and have found increasing costs associated with their cooperation with this program. It should be noted that the institutions of higher learning also have been required to absorb substantially increased cost with the administration of this program. The Pennsylvania State University has had to add two clerical, one professional, and substantial data processing costs in order to provide the services mandated by law.

It is imperative that Congress understand that a zero recommendation under a need analysis test does not preclude the very real necessity for this funding in order to attend college. Families who live on future income do not have the discretionary dollars available to them to purchase higher education. In order to do this, in many cases, it would necessitate that they fall in arrears in the payment of monthly obligations.

The attached data and letters indicate that a substantial number of students planning to use State Guaranteed Loan funding for collegiate attendance for the 1973–74 academic year will be without funding unless the banks are willing to grant non-subsidized loans. It is an established fact that many banks are choosing not to grant non-subsidized loans; consequently, we currently have a program which is proving unsatisfactory to the lending institutions, institutions of higher learning, and most importantly to students and their families.

FEDERALLY INSURED STUDENT GUARANTEED LOAN ANALYSIS

The following data were extracted from the applications received by the Office of Student Aid at The Pennsylvania State University between February 15, 1973, and June 30, 1973. Only those which had been processed completely were considered for this report. From this population of approximately 1451, only applications processed for the interest benefits were included. After eliminating the independent students' applications and a few with incomplete information, the population was reduced to 1000. Thus, the population of 1000 consists of processed applications from dependent students who were seeking the interest subsidy.

The recommended loan amounts referred to are the resulting figures after subtracting family support and other resources from the University budgets.[1] It should be noted here that, except for a few cases in the very low income levels, these applicants traditionally have been ineligible for other forms of Federal financial aid. Therefore, the recommended loan amount was virtually unaffected by consideration of other aid committed to the student.

Much of the data relates to "adjusted income." This is the income level determined on the Lenders Report OE Form 1070 which had been used under the previous regulations to determine the applicant's eligibility for the interest subsidy. (The gross income is reduced by 10% plus a deduction is allowed equal to the number of dependents multiplied by $750; i.e., gross income (x) — .10x — y dep ($750) = adjusted income.) Use of adjusted income allows these data to be viewed in relation to the previous regulations.

Major Findings

The average adjusted income of the families applying for the loan was $9,745. The applicants on the average clearly are in the middle income ranges, with *75% of this population between the $6000–$15,000 levels. Another 17% were in the lower income levels, leaving only 8% of the population in the above $15,000 category.*

The average loan request was $1382, while the average recommendation was $812.50. Thus, the applicants are receiving only 59% of their total request.

Across the entire population of 1000, a total of 296 or *29.6% received a zero recommendation* as a result of the need analysis.[2] As indicated in the graphs to follow, these low recommendations cross all income levels and occur regardless of family size.

TABLE 1 AND GRAPH 1

Table 1 and Graph 1 depict the average recommendations according to adjusted income levels. The column labeled "N" represents the number of applicants in each category.

It is apparent that only the very low income levels receive an average recommendation of $1500. The recommended amounts drop significantly between the $10,000 and $13,000 adjusted income categories.

This analysis indicates, as would be expected, that the amount recommended decreases as income increases. However, the average recommendations appear very low for the middle income levels, particularly when compard with their eligibility under previous regulations. This point is stressed by the average recommendations for adjusted income levels between $11,000 and $14,999.

It should be noted that the average in the 0–999 income category was biased by one case which received a 0 recommendation (probably due to other resources such as Social Security and/or Veterans benefits). This is true in the $23,000 category also where three applicants received 0 recommendations and one received a recommendation of $2400 (due to extraordinary emergency expenses). Table 3 assists this analysis by showing the variability of recommendations within income categories.

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[1] PSU Budgets for 9 months: Resident 2865; Out of State 4065; Commuter 2379.

[2] PSU uses the College Scholarship Service as its approved method of need analysis.

TABLE 1.--AVERAGE LOAN RECOMMENDATION BY INCOME LEVEL

Adjusted income	Average recommendation	Number
$0 to $999	$1,011	9
$1,000 to $1,999	1,580	15
$2,000 to $2,999	1,662	13
$3,000 to $3,999	1,423	35
$4,000 to $4,999	1,302	44
$5,000 to $5,999	1,239	54
$6,000 to $6,999	1,017	58
$7,000 to $7,999	1,025	90
$8,000 to $8,999	886	118
$9,000 to $9,999	781	105
$10,000 to $10,999	821	90
$11,000 to $11,999	571	93
$12,000 to $12,999	286	77
$13,000 to $13,999	296	67
$14,000 to $14,999	273	55
$15,000 to $15,999	161	18
$16,000 to $16,999	6	16
$17,000 to $17,999	162	13
$18,000 to $18,999	0	5
$19,000 to $19,999	40	8
$20,000 to $20,999	350	6
$21,000 to $21,999	0	2
$22,000 to $22,999	0	4
$23,000 to $23,999	600	4
$24,000 to $24,999	--------	--------
$25,000 to $25,999	0	1

GRAPH 1

AVERAGE LOAN RECOMMENDATION
BY INCOME LEVEL

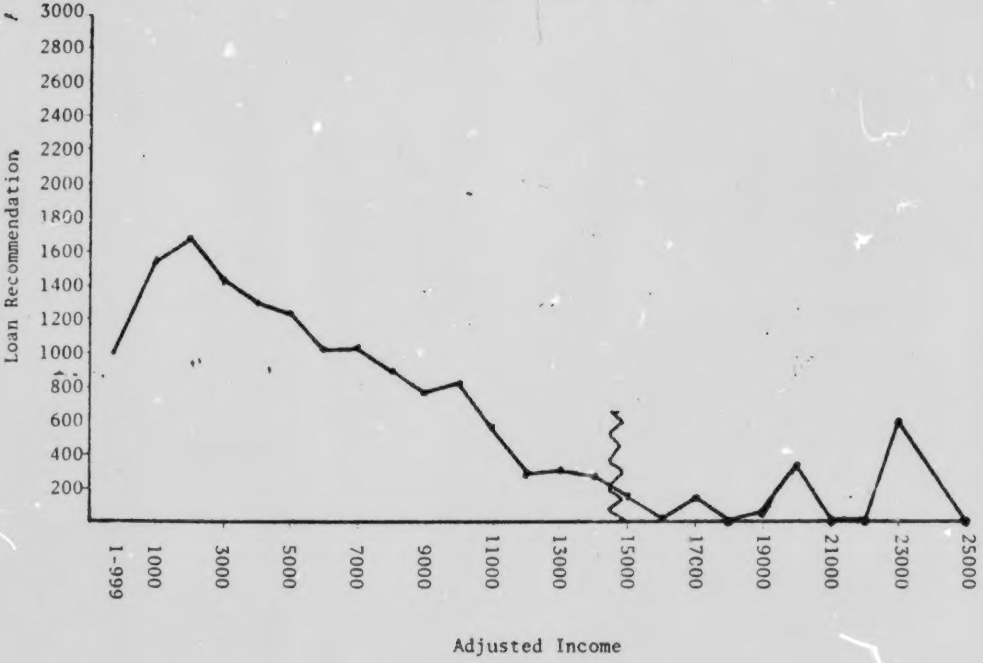


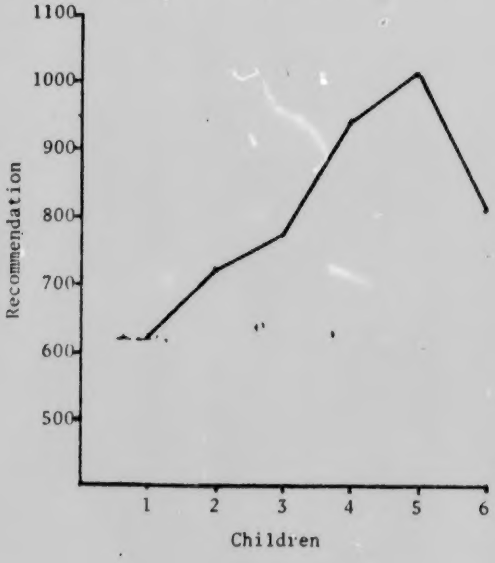
TABLE 2

Children	Adjusted income	Average recommendation
1	$9,090	$620
2	10,130	720
3	10,342	774
4	9,450	940
5	8,972	1,01[illegible]
6	10,486	81[illegible]

Note.—The above table combines the data on graphs 2 and 3. This information summarizes the results after analyzing the applications by family size. Perhaps the most significant point to make from these data is that the average recommendation does not seem to be affected to any great extent by the size of the family.

GRAPH 2

Average Recommendation by Number of Dependent Children



GRAPH 3

Average Adjusted Income by Number of Dependent Children

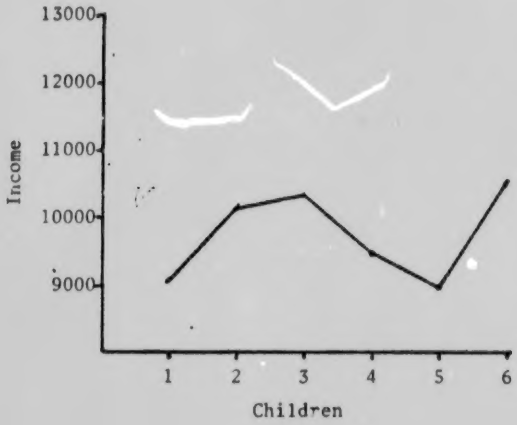


TABLE 3

There is a wide range of recommendations within each category as this table indicates. Low or zero recommendations begin to appear immediately regardless of income or size of family. Of course, the need analysis test considers other factors, such as assets, some medical and emergency expenses and certain debts.

Taken separately, this particular table does not necessarily stress any problems. However, the previous graphs and tables indicate that the average recommendations are low in spite of the variability. The following graphs and tables will further emphasize the number of zero or low recommendations.

TABLE 3.—RANGE OF RECOMMENDATIONS BY INCOME AND NUMBER OF CHILDREN

Adjusted income	Number of children in family					
	1	2	3	4	5	6
0 to $999	0–$1, 400	[1] $2, 000	[1] $600	$100–$1, 500	[1] $1, 600	
$1,000 to $1,999	400– 3, 000	400– 2, 300	3– 2, 200			
$2,000 to $2,999	[1] 2, 300	800– 2, 200	600– 2, 100	[1] 2, 200	[1] 2, 200	
$3,000 to $3,999	500– 2, 100	100– 2, 100	600– 2, 400	200– 1, 800	1, 500– 1, 900	$2, 300
$4,000 to $4,999	0– 2, 100	800– 2, 400	0– 3, 300	200– 2, 200	1, 100– 2, 400	700–1, 600
$5,000 to $5,999	0– 2, 000	0– 2, 200	0– 2, [illegible]00	1, 400– 2, 200	1, 100– 2, 400	[1] 1, 400
$6,000 to $6,999	0– 2, 100	400– 2, 300	0– 1, 800	0– 1, 400	0– 1, 400	0– 400
$7,000 to $7,999	0– 2, 200	0– 1, 800	0– 2, 300	0– 2, 100	1, 100– 1, 900	[1] 2, 100
$8,000 to $8,999	0– 1, 900	0– 2, 400	0– 2, 300	0– 1, 300	0– 1, 500	800–1, 000
$9,000 to $9,999	0– 2, 400	0– 2, 800	0– 1, 600	300– 2, 900	0– 2, 000	800–1, 100
$10,000 to $10,999	0– 1, 600	0– 2, 000	0– 2, 300	100– 2, 100	0– 2, 300	0–2, 100
$11,000 to $11,999	0– 1, 000	0– 3, 000	0– 1, 300	0– 1, 700	0– 1, 800	600– 700
$12,000 to $12,999	0– 700	0– 2, 000	0– 1, 600	0– 900	0– 1, 300	
$13,000 to $13,999	0– 500	0– 1, 800	0– 1, 200	0– 1, 400	0– 1, 200	0–1, 000
$14,000 to $14,999	0– 600	0– 2, 100	0– 1, 300	0– 700	0	0–1, 000
$15,000 to $15,999	[1] 0	0– 800	0– 1, 000	0– 500		[1] 200
$16,000 to $16,999	0	0– 100	0		[1] 0	
$17,000 to $17,999		0– 400	0– 1, 100	0– 600	[1] 0	
$18,000 to $18,999		0	0	[1] 0		
$19,000 to $19,999	0		0– 200			
$20,000 to $20,999		[1] 0	0– 1, 200	[1] 0		
$21,000 to $21,999	0	[1] 0				
$22,000 to $22,999	0	[1] 0		0		
$23,000 to $23,999		0	[1] 2, 400			[1] 0
$24,000 to $24,999						
$25,000 to $25,999						[1] 0

[1] 1 applicant.

GRAPH 4

This graph shows the number of applicants receiving various recommendations for the subsidized loan. It becomes more significant in light of the fact that 92.3% of the applicants come from families with adjusted incomes below $15,000.

It is clear from this graph that the most frequent recommendation is between 0 and $99. We have found that these applicants consider recommendations below $200 to be of little use and thus turn them down.

A total of 812 recommendations fell below the $1500 level (maximum yearly loan amount for undergraduates who are Pennsylvania residents).

GRAPH 4

FREQUENCY OF RECOMMENDATIONS

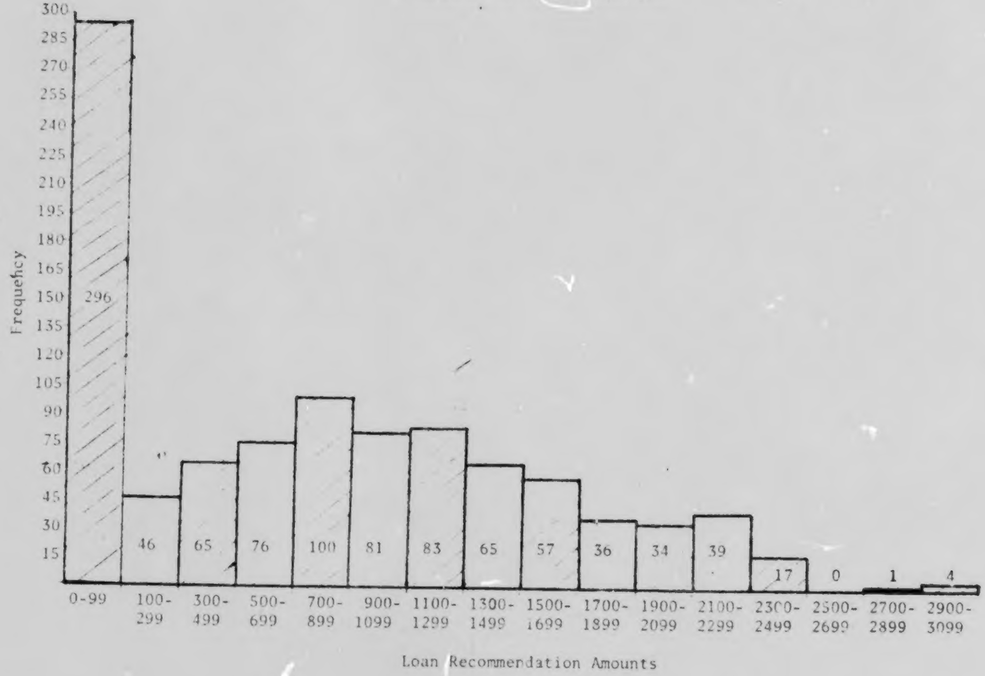


TABLE 5

Example: (indicated with brackets on Table) [10:17]

These applicants are from families with three children and an adjusted income between $12,000 and $12,999. Ten (10) applicants received a 0 recommendation. There were 17 total applicants in this group.

This table indicates that 0 recommendations occur in almost every income category (except the lowest) and across all family sizes.

The percentage of 0 recommendations in each adjusted income category increases as the income increases. This is to be expected, but it does not explain the drastic increase in the percentage of 0 recommendations between the $11,000 to $13,000 adjusted income levels (29%-61%). This appears to be a strong indication of the effect of the need analysis on middle income families.

Upon examination of the "Total" column in relation to income levels, *these data indicate that of the 1000 cases, 923 (92.3%) fall under the $15,000 adjusted income level.* Under the previous regulations, all of the applicants would have been eligible for the $1500 subsidized loan. However, the table indicates that, according to the need analysis, 232 (23.2%) are completely ineligible (0 recommendations) for a subsidized loan.

TABLE 5.—RATIO OF NUMBER OF ZERO RECOMMENDATIONS TO THE NUMBER OF APPLICANTS WITHIN INCOME CATEGORIES AND BY THE NUMBER OF DEPENDENT CHILDREN IN FAMILY

Adjusted income	Number of children in family						0 recommendations	
	1	2	3	4	5	6	Total	Percent
0 to $999	1:2	0:1	0:1	0:4	0:1	0:0	1:9	11
$1,000 to $1,999	0:6	0:7	0:2	0:0	0:0	0:0	0:15	....
$2,000 to $2,999	0:1	0:6	0:4	0:1	0:1	0:0	0:13	....
$3,000 to $3,999	0:8	0:7	0:6	0:8	0:4	0:2	0:35	....
$4,000 to $4,999	3:18	0:8	2:7	0:5	0:4	0:2	5:44	11
$5,000 to $5,999	6:15	1:12	1:13	0:5	0:8	0:1	8:54	15
$6,000 to $6,999	3:19	0:14	1:13	1:6	1:4	1:3	7:58	12
$7,000 to $7,999	3:12	1:31	3:23	1:18	0:5	0:1	8:90	9
$8,000 to $8,999	3:30	9:41	2:28	1:7	2:8	0:4	17:118	14
$9,000 to $9,999	7:27	3:30	2:22	0:17	1:7	0:2	13:105	12
$10,000 to $10,999	9:21	6:26	5:20	0:9	1:6	1:8	22:90	24
$11,000 to $11,999	10:14	11:33	3:21	2:12	1:11	0:2	27:93	29
$12,000 to $12,999	18:19	14:30	[10:17]	3:6	2:5	0:0	47:77	61
$13,000 to $13,999	18:19	10:17	10:17	2:6	2:4	1:4	43:67	64
$14,000 to $14,999	7:9	14:18	7:16	3:6	2:2	1:4	34:55	62
$15,000 to $15,999	1:1	8:10	1:2	3:4	0:0	0:1	13:18	72
$16,000 to $16,999	3:3	7:8	4:4	0:0	1:1	0:0	15:16	94
$17,000 to $17,999	0:0	4:5	4:5	1:2	1:1	0:0	10:13	77
$18,000 to $18,999	0:0	2:2	2:2	1:1	0:0	0:0	4:5	80
$19,000 to $19,999	1:1	0:0	6:7	0:0	0:0	0:0	7:8	88
$20,000 to $20,999	0:0	1:1	2:4	1:1	0:0	0:0	4:6	66
$21,000 to $21,999	1:1	1:1	0:0	0:0	0:0	0:0	2:2	100
$22,000 to $22,999	1:1	1:1	0:0	2:2	0:0	0:0	4:4	100
$23,000 to $23,999	0:0	2:2	0:1	0:0	0:0	1:1	3:4	75
$24,000 to $24,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	....
$25,000 to $25,999	0:0	0:0	0:0	0:0	0:0	1:1	1:1	100
$26,000 to $26,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	....
$27,000 to $27,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	....
$28,000 to $28,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	....

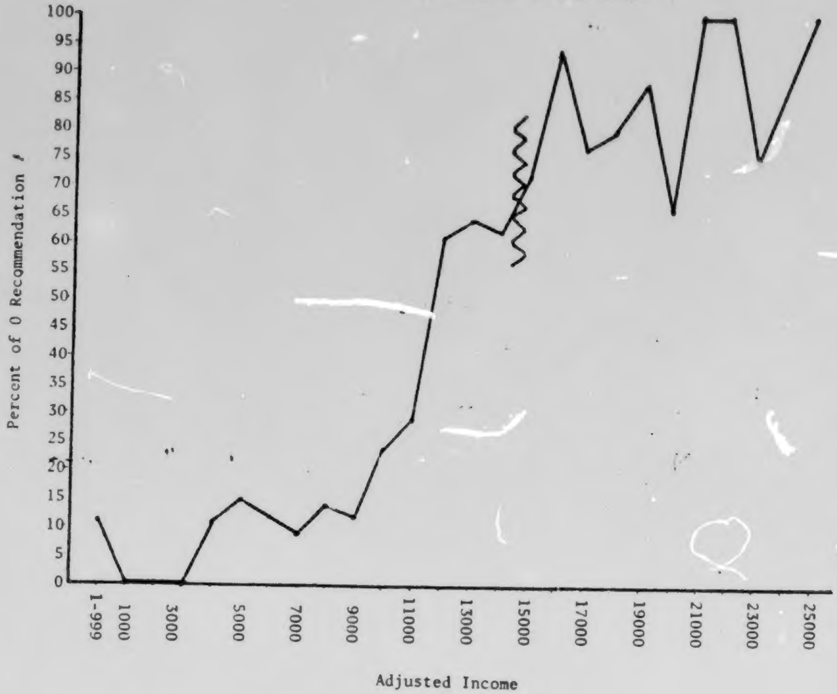
GRAPH 5

This graph is a summary of the data which appears in the "Percent" column on Table 5.

The break on the graph indicates those applicants who previously would have been eligible for the subsidy. This further stresses the point that the need analysis has not just reduced the amount of loan for these applicants, but has virtually eliminated the subsidized option for many.

GRAPH 5

PERCENT OF APPLICANTS RECEIVING ZERO (0) LOAN RECOMMENDATION BY ADJUSTED INCOME LEVEL



RICKER COLLEGE,
Houlton, Maine, July 24, 1973.

HON. JAMES O'HARA,
Chairman, Special Subcommittee on Education
House of Representatives,
Washington, D.C.

DEAR SIR: Like most other college officials responsible for student financial aid I have appreciated the sympathetic approach of the Congress during the past six months. Thanks to Congressional effort we have been able to continue to serve our clients when, only recently, we faced disaster.

We have already had sufficient exposure to the two types of aid most strongly supported by the Administration, Basic Educational Opportunity Grants and Federally Insured Student Loans, to allow some conclusions which might be helpful in your additional deliberations on aid.

The BEOG program's difficulties lie in its seemingly unbending "family contribution." I refer you to an article in the current (Summer, 1973) edition of *Change* magazine, p. 64, which raises serious questions, suggesting the spectre of involved litigation over the degree to which "expected" contributions may be "compelled." Beyond this, the rigidity really fails to account for present family emergencies. Despite these criticisms, I do endorse the concept of the BEOG, provided it does not become the sole grant program.

The Federally Insured Student Loan program is quite another matter. Ever since July, 1972 when the changes mandated by the Higher Education Amendments of 1972 were first employed, we have had growing difficulties with this program. I thought perhaps that the cause lay in the suddenness of the implementation of the new regulations and that time and some workshops would correct the problems. Now I believe the difficulties lie in the lending institution's unwillingness to correctly handle the program. Let me list my complaints:

1. The Maine National Bank of Portland has announced it will not make loans to freshmen, along with some other restrictions. This seems shockingly inappropriate in a program the Administration has hailed as the wave of the future.
2. A bank in New Hampshire has also informed students it will not lend to freshmen.
3. Several New York and Pennsylvania banks have told students they had "exhausted" their supply of Federally Insured Student Loans.
4. It is difficult to detect any banks which have offered adequate or even accurate instructions to the students as to the application process. We have had banks send us old Supplementary Applications, single sheet Supplements, and one bank even went so far as to repeatedly inform parents that no school recommendation was necessary to qualify for federal interest subsidy.
5. I know personally of one bank which failed to inform parents of the new application process, forwarded the necessary forms to the student's school (not ours) and granted a loan *without interest subsidy* never once letting the parents know that, because no need analysis had been done, this loan was different from the previous year's which had been subsidized.
6. The new levels of lending which had been intended to make the FISL program more flexible are being universally disregarded and the old $1000 or $1500 limit continued.

Over the years this program has served the needs of a middle class which might not technically, by some mechanical formulae, have need but in which the students wished or were forced to assume a greater share of their cost of education. Its new elaborate and confusing application process and limitation to those who have a need measured on a previous year's income is reducing its usefulness. Certainly no program so subject to the whims of local bankers can ever be a key feature of a student aid program.

National Direct Student Loans, College Work-Study and school-administered grants continue to be the most flexible, fairly awarded aid. Please help assure that these programs are adequately funded in the years ahead.

Sincerely,

JAMES R. FLOYD,
Dean of Students and Director of Financial Aid.

[Mailgram]

CLEMSON, S.C.

HON. JAMES G. O.HARA,
Washington, D.C.

Strongly recommend that consideration of financial need for the insuring of guaranteed student loans not, repeat not be eliminated and that part 177.2, chapter 1, title 45, U.S. Code December 12, 1972, remain unchanged. This is the most realistic and logical approach to student lending to come forth since passage of the original Higher Education Act of 1965. Further, at this late date any change(s) should seriously impede aid effort for 1974–75.

ARNOLD M. BLOSS,
Director of Student Aid,
Clemson University.

THE FIRST NATIONAL BANK,
Holly Hill, S.C., July 31, 1973.

Representative JAMES G. O'HARA,
Washington, D. C.

DEAR SIR: I would like to show my concern and my banks concern over the possibility that the needs test on student loan applications be eliminated.

I feel that if the needs test is dropped some of these loans would be used for non-educational purposes and there would be rise in defaults. These costs are then passed on to us the taxpayer.

I hope you will do what you can to influenec your committee to see that this needs test remains a part of the students loan application.

Yours very truly,

J. LOCKWOOD HAR,
Assistant Cashier and Student Loan Officer.

SAINT MICHAEL'S COLLEGE,
Winooski, Vt., July 19, 1973.

Hon. JAMES G. O'HARA,
Chairman, Special House Subcommittee on Education,
Washington, D.C.

DEAR SIR: In regard to various problems I have experienced in the processing of the Guaranteed Student Loan Program for the 1973-74 academic year.

My impression is that the Financial Aid Directors and the banks from certain staes such as Maine, Connecticut and New Jersey are not in agreement. For example a student may show a —0— need for the interest subsidy but in no way does this mean his family can meet the full cost without making a Guaranteed Student Loan and paying the interest himself. The banks feel that since there is a —0— need the loan should be denied.

Most of the problems center in this area. The only other difficulty I have encountered is the banks do not want to split an interest subsidy loan and interest paid by the student. For example, if the student is applying for a $1500. loan with the interest subsidy and the school only recommends $1000., the banks in many cases will only allow the amount recommended by the school, without allowing the remaining $500. to be given without the subsidy.

I would very much like to see and recommend at this time that if the adjusted family income is $15,000. or less there would be no need for a 1260 form, which is the Student Loan Application Supplement.

The Guaranteed Student Loan Program has tripled the workload in this office; which in itself presents numerous disadvantages.

In view of the above mentioned facts I feel that there is a definite need for changes in this program.

Sincerely,

MADELINE E. YANDOW,
Director of Financial Aid.

NASHVILLE, TENN., JULY 31, 1973.

Hon. JAMES G. O'HARA,
Chairman of the House Special Subcommittee on Education,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: As a financial aid administrator, I feel that it is more equitable to have the needs test requirements on the Guaranteed Loan Program.

It does create a lot of additional work for financial aid administrators, but it is apparent that controls have to exist to eliminate abuse of our federal student aid programs.

I am definitely in favor of retaining the needs test requirments. After one academic year has elapsed, it will be more appropriate to consider the effects of the tests on the Guaranteed Student Loan Program.

Yours truly,

(Mrs.) **PHYLLIS H. BRANAN.**

UNION NATIONAL BANK,
Wichita, Kans., July 30, 1973.

Mr. JAMES G. O'HARA,
Washington, D.C.

DEAR MR. O'HARA: I strongly feel that it would be a mistake on the part of Congress to make another change in the Guaranteed Student Loan Program at this time.

The needs test that was instituted, I feel, is quite fair and enables us to make loans to the more needy students. I would, therefore, oppose any legislation at this time that would seek to liberalize the criteria for obtaining student loans.

Very truly yours,

ROBERT W. WALL,
Student Loan Officer.

[Mailgram]

NEW YORK, N.Y.

Hon. JAMES G. O'HARA,
Washington, D.C.

United student aid funds which operates in all 50 states and is one of the oldest and most diversified participants in the guaranteed student loan program, is appauled that serious thought is being given now to changing the rules for this program. Congress last summer made major and necessary changes in the law. The first set of regulations then generated massive confusion, so that further congressional action was needed to bail out the program. New regulations we issued to be effective March 1 and the whole program is just beginning to work its way out of a morass of confusion and excess paperwork. To react to temporarily lowered loan volume by another change in the law 6 weeks before school opened would in our judgement be a monumental mistake. Others, including many lenders in the program, share this view.

Our urgent request is that Congress not now respond to temporary processing difficulties by prescribing the whole new set of rules which some are requesting. Such an unwise and unnecessary step would be a major setback to this very worthwhile program.

JOHN H. MATHIS,
President, United Student Aid Funds.

[Mailgram]

RICHMOND, VA.

Hon. JAMES G. O'HARA,
Washington, D.C

A proposal is being made to the House Special Subcommittee on Education that hearings be held with a view to making changes in Sec. 428(A) of the Higher Education Act of 1965, as amended in 1972.

This agency questions the wisdom of changing this law again at present. In July 1972 the method for determining interest benefits on guaranteed student loans was changed, and regulations were issued that proved unworkable. On August 19, 1972, the effective date of the new method was deferred to March 1, 1973. On this date, re-written rules were issued which this agency believes are equitable and workable if both school financial aid officers and lenders carry out their respective responsibilities.

To make another change this year would mean that, for the second time, a change had come about in the middle of the busy season for student loans, requiring a complete reversal of direction on the part of both lenders and schools. We think that such action would be more harmful than helpful to the loan program nationwide at the present time. There has been a reduction in loan volume for the months of March thru June 1973, but Virginia lenders have indicated continued support of the program to the extent that general conditions in the money market will permit. These conditions, we think, will govern student loan volume to a much greater degree than will Sec. 428(A).

This agency, therefore, recommends that no change be made at present in the law or regulations.

CHARLES W. HILL,
Executive Director,
State Education Assistance Authority.

VALLEY NATIONAL BANK,
Harrisonburg, Va., July 30, 1973.

Representative JAMES G. O'HARA,
Chairman, House Special Subcommittee on Education,
Washington, D.C.

DEAR MR. O'HARA: It is my understanding that there is a campaign underway to eliminate the requirement that student borrowers must establish need in order to receive an interest subsidy on educational loans. I would like to express the opposition of this bank, and my personal opposition to any such program.

It seems to me the only way to keep any such program within reasonable bounds is to require that the student establish need, and I see no reason to make loans when that need is not evident or provable. We believe that any student who can successfully demonstrate such need will be willing to do so. We realize that a burden will be placed on the colleges to review such applications but we feel that it is a necessary by-product of careful administration of the program. If necessary, a reasonable amount could be paid to subsidize the processing by the college of these applications. This would be much cheaper than an indiscriminate granting of credit.

We hope that you will use your influence to see that this elimination of need does not go through.

Very truly yours,

IRVIN C. LEE,
Executive Vice President.

FIRST VERMONT,
July 19, 1973.

Mr. JAMES HARRISON,
Special House Subcommittee on Education,
Washington, D.C.

DEAR MR. HARRISON: Our bank has been in the Student Loan Program since 1963. We have approximately 1,526 loans for $1,615,387. outstanding. For a bank with $150,000,000. in assets, we feel that this shows our interest and understanding of the Student Loan Program.

We feel that the "Proposal 15–15" would eliminate a lot of time and effort in processing Student Loan applications. The changes made effective in 1973 requiring every applicant to undergo the "needs test" is very cumbersome and difficult to explain. We are sure that it also creates an impossible work load for the financial aid officers at the various schools.

We would certainly like to see "Proposal 15–15" adopted as soon as possible.

Very truly yours,

NEAL G. TEMPLETON,
Vice President,
Installment Loan Department.

VERMONT TECHNICAL COLLEGE,
Randolph Center, Vt., July 12, 1973.

Mr. RICHARD TOMBAUGH,
National Association of Student Financial Aid Administrators,
Washington, D.C.

DEAR DICK: I am writing to convey the vote of the Executive Committee of the Vermont Association of Student Financial Aid Administrators supporting the "15–15 Proposal" submitted by the National Council of Higher Education Loan Program.

We feel that the loan program problems have reached a crisis stage. We further feel that the 15/15 Proposal will alleviate the colleges of an administrative burden and make loans more accessible to more students.

Sincerely,

JAMES F. LUPTON,
President, Vermont Association of Student Financial Aid Administrators.

WINDHAM COLLEGE,
Putney, Vt., July 19, 1973.

NELSON SCHARADIN, Jr.,
Director, Loan Guarantee Division,
Vermont Student Assistance Corp.,
Burlington, Vt.

DEAR MR. SCHARADIN: I was very glad to talke with you today and learn of the concern which is being expressed nationally about current federal guaranteed loan regulations.

Our experience with the new regulations has been extremely frustrating and it is our conclusion that the regulations are not having any beneficial effect. Certainly, the application procedures have resulted in puzzled parents and students and excessive additional paperwork for all concerned. This situation might be tolerated if the procedures were working effectively, but it appears that they are not and that many students who deserve to be awarded loan funds are hampered by the requriements and frequently denied loans, or loans in the amount they need, because of necessary reliance on a financial needs analysis system which often misrepresents a family's actual financial situation and the reluctance of lending institutions to exceed school recommendations, or even to consult schools when recommendations are in question.

In the summer of 1972, financial aid offices were asked to respond efficiently to regulations which were not well thought out and after much effort had been expended uselessly, in an effort to comply with the regulations and advise students about what they should do, the regulations were revoked. The regulations now in effect, though better formulated, have similarly confusing results. We have found that many communications are necessary with loan applicants before an application is completed, and that there is absolutely no way of knowing whether or not a student who has need, but who has difficulty proving it, will be successful in his loan application. Once again, students from middle-income families are feeling the crunch.

The proposal now under review (1515), if implemented, would certainly restore some equilibrium in a very off-balance situation. It might even restore some cheer in financial aid offices, which are very glum places in these frustrating days of inability to assist students who, we know, really need all the help they can get but who are being hard put to find it.

Sincerely,

ALESANDRA M. SCHMIDT,
Director of Financial Aid.

HIGHER EDUCATION LOAN PROGRAMS

TUESDAY, FEBRUARY 5, 1974

HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE ON EDUCATION OF THE
COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 9:05 a.m., pursuant to notice in room 2257, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara presiding.

Present: Representatives O'Hara, Gaydos, Lehman, Quie, Dellenback, and Erlenborn.

Staff Present: Jim Harrison, staff director; Al Franklin, counsel; Elnora Teets, clerk; Robert Andringa, minority staff director.

Mr. O'HARA. The Special Subcommittee on Education will come to order.

For most of the past 8 or 9 months this subcommittee has been considering the problems which confront the student trying to make a guaranteed loan with which to help finance his education.

We have sent the subcommittee staff, together with members of the full committee and the minority staff, into the field to examine conditions in the guaranteed student loan market.

We had a hearing on July 26, at which we took testimony of those staff investigaters and listened to the comments of spokesmen for the College Entrance Examination Board, the American Bankers' Association, the National Association of Student Financial Aid Administrators, the Student Loan Marketing Association, the Office of Education, and the organization we will hear from this morning, the National Council of Higher Education Loan Programs.

These groups do not attain anything like unanimity on their recommendations. But throughout all the testimony we took at our hearings, throughout all the mail we have received in the months since and throughout the meetings the staff held around the country, there echoed the outline of the proposal offered by the national council, the so-called "15/15" proposal.

The bill on which we are taking testimony today and next week is pretty obviously the direct descendant of the 15/15 proposal. I have proposed, with my colleagues on this side of the subcommittee aisle, a bill which would eliminate the requirement for needs analysis for those families whose adjusted gross incomes are below $20,000 and who are borrowing less than $2,000 for a given school year.

I don't have to take up the time of the subcommittee by going over the background of the legislation. I sought to do that when I introduced H.R. 12523, and I will ask unanimous consent that my own remarks on the legislative history of the 1972 amendments be made a part of the record.

[From Congressional Record, Jan. 31, 1974]

THE STUDENT LOAN CRISIS

The SPEAKER. Under a previous order of the House, the gentleman from Michigan (Mr. O'Hara) is recognized for 15 minutes.

Mr. O'HARA. Mr. Speaker, on Monday, I shall introduce a bill to amend the Higher Education Act with respect to the needs analysis requirement placed in that act by Public Law 92–318. My bill would seek to open up the possibility of obtaining an interest-subsidized, guaranteed college loan to a great many Americans who could have obtained such a loan before the 1972 amendments were enacted, and who, I am convinced, the Congress never intended should be deprived of the opportunity when those changes were made 18 months ago.

Let me explain a little of the history of the problem. Prior to the 1972 amendments, any student whatever his family's income, could qualify for a guaranteed loan without interest subsidy, and any student whose family's income was $15,000 or below could qualify for interest benefits—under which the Government would pay the interest during the student's college career and for 9 months thereafter. This interest benefit was, of course, in addition to the guarantee the States and the Federal Government provided to the private lender in case of borrower default.

In changing the law in 1972, the Congress removed the $15,000 income ceiling for eligibility for guaranteed, interest-subsidized loans. We felt, as any observer of the economic events of the past 5 years must feel, that $15,000 is certainly not what it was when the ceiling was first placed on eligibility. In 1965, $15,000 was a respectable middle-class annual income. It would buy meat for the table, gasoline for the car, and help pay for a college education. Those making $15,000 in 1965 were not among the rich, to be sure, but they were not hard put to make ends meet.

Mr. Speaker, the past 5 years—and I shall not waste time here in recriminations—have seen the value of $15,000 reduced so sharply that "inflation" is hardly the word for it. What was a comfortable middle-class income 5 years ago cannot today buy meat for the daily table—and if bread, gasoline, heating fuel, and the other necessities of life continue to climb, it may hardly begin to pay for a first-class trip to the poorhouse.

The Congress recognized this trend as early as 1972, or earlier, and, in 1972, removed the $15,000 ceiling. Because of the general reluctance of banks to make unsubsidized loans, and because of the upward movement of the threshold of real need for guaranteed and subsidized loans, we decided to remove the ceiling, and stop to ruling out truly needy families whose income might be a few dollars over $15,000 in a given year.

The intention of the Congress, then, was to liberalize access to guaranteed subsidized loans.

But the committee was also given evidence which suggested that, in a few cases, the loan privilege may have been abused. Students who may not have needed the loan to pay their tuition borrowed anyway, and, we are told, used the proceeds to buy automobiles, or the like.

There seems to have been some evidence of this kind of practice, but I believe it fair to say the committee acted more to eliminate the possibility of abuse than to cope with an existing epidemic of abuses.

We put two provisions in the law relating to two classes of borrowers—those whose family incomes were below $15,000, and those whose family incomes were above. For those with incomes above $15,000, the law provided that the college had to determine if he was in need, and the amount of that need, and had to certify those findings to the lender. For those with incomes below $15,000, the law simply requires that the amount of the need be determined, and certified to the lender. In both cases, the lender is the final authority as to whether or not the loan will be made, and the amount of the loan.

The intent of the law, as I have heard it explained by more than one member of the conference committee that wrote it, was to assume need for families below $15,000, and simply secure an idea of the amount of need, while for families of over $15,000, both the existence and the amount of need were to be examined by the institution.

Unfortunately, under the law and regulations as written, families in both categories are treated essentially the same—a vigorous needs analysis is made, and both the existence of need and the amount of need are measured against the needs analysis.

In effect, then, Mr. Speaker, a law which was supposed to liberalize access to gauranteed loans by removing an income test was wound up making it harder by imposing a rigorous income analysis in place of the restrictive but simple size-of-income test.

Needs analysis itself is a phenomenon that is widely misunderstood, and often misapplied. But at its best, it rests on some very stiff assumptions about how much families can and should contribute to the higher education of their children.

My subcommittee has conducted 2 days of hearings dedicated entirely to the theory and practice of needs analysis, and I think that while its practitioners are very careful to point out that they are not trying to provide student aid officers or parents with an ironclad rule as to how much a family can in fact contribute to a young person's education, they do make the kinds of assumptions about the value of higher education that persons in the education profession can be expected to make. And, after making those assumptions, the needs analysts come up with some pretty steep assessments of what families "can reasonably be expected to contribute."

This assessment once made, it is the obligation of the student aid officer and the lender to make their own independent judgments as to how much of a loan the aid officer will recommend and the lender will make. Unfortunately, as seems so often to happen when an impressive data processing operation presents a busy aid officer or banker with a suggested figure, there is a very great tendency to take that figure as binding, and look no more into the problem.

In addition to our 2 days on needs analysis, my subcommittee last summer sent its staff out into the field to find out what was happening in the guaranteed loan program, and held a day-long roundtable discussion with regard to those findings.

Our findings on the basis of those field trips and hearings was that there existed somewhat greater flexibility under the law than most student aid officers and bankers were willing to utilize. We sent to the student aid community an exchange of correspondence between the Committee and the Office of Education, and a subsequent exchange of letters with the Comptroller General, highlighting the flexibility that the institutions and the banks do have.

But in all fairness to the institutions and the banks, I think it is also fair to say that the language of the law, the very stringent regulations by OE, and an historically justified concern over possible audit exceptions to what bureaucrats might consider "excessive student aid packages" have made the schools understandably shy.

I can also, to a certain extent, understand the banking community's attitude. The guaranteed loan is not an attractive consumer loan from a bank's point of view, and if we raised the interest rate to the point where it was attractive, there would be little need and no utility to the program. If we raised interest rates to the level they have reached on commercial loans, many middle-class and low-income families could not afford to borrow, and those who could, could utilize the numerous education loan programs which banks already offer at consumer interest rates.

Given that fact, a bank is not likely to look beyond a recommendation from a student aid officer which simply reiterates what an impressive computer-print needs analysis says, and make a loan in excess of what they both suggest.

And in all three cases—the needs analyst, the student aid officer, the banker, the temptation is irresistable to point to the previous step in the chain and place the responsibility for a difficult and seemingly hardhearted decision at that other point. The banker says "the school did not recommend a loan." The school says "the needs analyst said the kid's family had to make too big a contribution;" the needs analyst says, "I can only go on what the family and the computer tell me."

But the family is unable to make a loan, and the student is unable to complete his education.

That unhappy picture has been the situation during the past year. Loan volume under the program which we sought to liberalize and expand has shrunk. Bankers have become impatient and withdrawn from the program: institutions have been confronted with growing difficulties in filling their classrooms. But above all, students, who can benefit from having them receive one, are unable to get one. We are all losers.

The President who last night told us he was recommending "an expanded program of loans and grants" has already told us that his solution for the loan problem is to have Secretary Shultz and Secretary Weinberger write the bankers and say in effect, "Gee, fellas, won't you lend some money?"

I think that is hardly adequate to get the loan program moving again.

The Senate Labor and Public Welfare Committee yesterday approved an amendment to a pending education bill which would remove the needs analysis requirement for persons with incomes below $15,000.

This is a constructive step in the right direction, but for the reasons I have suggested above, I think it may not be a long enough step in that direction. Fifteen thousand 1974 dollars are simply not the same thing as 15,000 1965 dollars, or even 15,000 1972 dollars, and I think it would be a mistake to treat them as such.

I have therefore introduced legislation today, and I will begin hearings on it next week, which would need analysis for any family whose income is below $20,000 and which is making a loan of $2,000 or less. My bill also contains an essentially technical amendment, extending to June 30, 1975, the authority for HEW to establish a special allowance in the amount of interest subsidy paid to keep step with the inflation in prime interest rates.

I think we must move as a beginning in the direction suggested by this legislation, and I hope we can move expeditiously, and with our primary concern focused on the needs of those students who were intended to be helped by the 1972 amendments and have not been.

Let me conclude, Mr. Speaker, with a word to the banking community and to the student loan officers. In the past several months, a great many hours and days have been consumed by the members and staff of the Special Subcommittee on Education in an effort to develop legislation which will help cure the defects in the guaranteed loan program—defects that are admitted by most observers, even those who do not agree on the best way to cure them.

One very important barrier to the active consideration of legislation in this area has been the fear, and the occasional prediction that the introduction of any legislation will so confuse the student aid community and terrorize the banking community that both will throw up their hands in disgust and the program will collapse.

I think these are exaggerated fears. I think the student aid officers and the bankers will recognize that legislative remedies cannot be enacted overnight, and that the overriding public interest in helping young people secure the education they need cannot be replaced by unreasoning panic because an admittedly rickety structure is being examined to see what can be done to make it sturdier.

I am going to take a chance, based on that belief. I am introducing this legislation, and I am calling for hearings, instead of trying to rush the legislation through too fast for anyone to react before it is in place. I do not think the bankers will panic. I do not think the student aid officers will lose touch with reality.

If they cooperate with this subcommittee, if they continue to do business under the rules and regulations now in effect, while we and our colleagues in the Senate move forward speedily but carefully to create an improved program, then they will have justified the faith the guaranteed loan program provisions of the law already place in them.

The bill, Mr. Speaker, has been circulated among my colleagues on the Special Subcommittee on Education, and will be introduced on Monday. Hearings will begin on Tuesday, February 5 at 9 a.m. and will continue thereafter for what will be, I hope, long enough to get all the data we need, but no longer than necessary to enable us to legislate.

H.R. — (Subsequently introduced as H.R. 12523)

A bill to amend section 428(a) of the Higher Education Act of 1965, as amended, and section 2(a)(7) of the Emergency Insured Student Loan Act of 1969, to better assure that students will have reasonable access to loans to meet their postsecondary education costs, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That clauses I and II of the first sentence of paragraph (1) of subsection (a) of section 428 of the Higher Education Act of 1965 are amended to read as follows:

"(I) less than $20,000, the amount of such loan would not cause the total amount of the student's loans under this part to exceed $2,000 in any academic year or its equivalent (as determined under regulations of the Commissioner), and the student has been accepted for enrollment at an eligible institution or, in the case of a student who is attending such an institution, is in good standing at such institution (as determined by the institution); or

"(II) less than $20,000 and the amount of such loan would cause the total amount of the student's loans under this part to exceed $2,000 in any academic year or its equivalent (as determined under regulations of the Commissioner), or equal to or more than $20,000, and the eligible institution at which the student has been accepted for enrollment, or in the case of a student who is attending such institution, at which the student is in good standing (as determined by the institution) has determined that the student is in need of a loan to attend such institution; has determined, by means other than one formulated by the Commissioner of Education under Part A, subpart 1 of this title, the amount of such need by subtracting from the estimated cost of attendance at such institution the expected family contribution with respect to such student plus any other resources or student aid reasonably available to such student; and has provided the lender with a statement evidencing the determination made under this clause and recommending a loan in the amount determined to be needed."

SEC. 2. Section 2(a)(7) of the Emergency Insured Student Loan Act of 1969 is amended by striking out "July 1, 1974" and inserting in lieu thereof "July 1, 1975."

SEC. 3. The amendments made by this Act shall be effective on and after July 1, 1974.

Mr. O'HARA. When we began the guaranteed student loan program in November 1965, we decided that families with adjusted gross incomes of $15,000 or under should be entitled, without further investigation, to interest benefits.

The Consumer Price Index has risen 45.6 percent from November 1965 until December 1973, and it continues to rise. I must recognize, in spite of White House assurances to the contrary, that the average citizen's income has not kept pace with inflation. Even if we were to assume it had, we could increase the ceiling on subsidy eligibility to $21,840 and not have gained an inch on the rate of price increase. So, to raise that ceiling to $20,000 still leaves the middle-income citizen a little less well off than he was when we first created the guaranteed loan program.

H.R. 12523 will not solve all the problems of the guarantee loan program, but I believe it will go a long way toward meeting one of those problems. And I for one do not think we have the time, and more significantly I don't think the middle-income families of this country have either the time or the money to wait patiently while we try to develop a perfect solution to their problems.

The Senate subcommittee has approved an amendment to the law, which would move in the same direction as H.R. 12523, though not as far. I have an open mind on that amendment too, and I trust that the record of this hearing may be completed soon enough to shed some light and to guide this House in its reaction to that amendment.

The chair will be willing, at this time, to yield to the gentleman from Oregon or to the gentleman from Illinois if they wish to make a statement.

Mr. **Dellenback**. Mr. Chairman, may I just say briefly that I think this issue is extremely important. This whole matter of what we are getting into here is sufficiently important that I agree very eagerly to the chairman's suggestion.

I hope that the hearings will be far-ranging. I think the witnesses this morning are obviously, from past experience, very knowledgeable people and I am looking forward to this morning's testimony, and being sure that in these hearings we look at the broad sweep of the picture and not just at the one aspect of the bill, that is, to spend more.

I believe it is the intention of the chairman to look at the broad sweep of what we do in this field. I think we are doing kind of oversight work in the subcommittee and the full committee.

Mr. **O'Hara**. If the gentleman will yield to me for just a moment. The chair is well aware, as the gentleman from Oregon and I have discussed previously at some length, it is our intention to do a thorough review of the student assistance programs this year.

However, the chair has been prompted into moving rather quickly on one aspect of it first because of his awareness of what is going on in the Senate, and the fact that we will very likely soon be confronted with the bill that contains a provision affecting guaranteed student loans.

It may be that if we are going to have any input on the thing at all we have to be prepared to react quite soon. That, of course, is the reason why we started off this way. The chair would be happy to yield to the gentleman from Illinois.

Mr. **Erlenborn**. Thank you, Mr. Chairman.

I want to make first the observation that unfortunately, I will have to leave this hearing soon. At 9:30 I have another subcommittee meeting to consider reporting a bill of which I am the principal sponsor and I feel rather impelled to be there.

I would like to also observe that the guaranteed student loan program, among the several student financial aid programs, has been of particular interest to me and, I think, to other Members of Congress in areas as mine where the average income is relatively high. We have many middle-income families and not much in the way of low income, which is served primarily by the other programs.

I would also like to make the observation that maybe the chairman could enlighten me as to the procedure. My understanding is that the first we on my side of the aisle knew of the introduction of this bill was Friday of last week when the Congress was not in session.

It is obvious when one looks at the bill that it is sponsored only by Democrats and primarily the Democratic members of the subcommittee. That might carry some significance. I think that for the record it might be well to have it explained how this circumstance comes about.

For my own part, If I might just conclude and I will be happy to yield to the chairman, while serving on the conference committee, where the decision was finally made to change the income test for the interest subsidy loan, I was opposed to the change.

I wanted to keep the $15,000 figure that was in the prior law. I would therefore be quite ready to see us go back to that sort of a change. But having been notified only at the last minute that this bill was to be introduced, and not really having an opportunity to even see the bill and give it any consideration, I was not prepared to co-sponsor the bill.

Mr. O'Hara. The chair would be happy to respond.

The chair regrets that it seems to him more necessary to move with haste than he likes to use. That was necessary in this particular case because of events on the other side of the Capitol. The chair had the bill drafted and was ready to go on Thursday morning. He had subcommittee staff check the Democratic members and the members of minority staff check the Republican members to see at that time if there were any who were desirous of co-sponsoring the legislation.

The bill then was introduced on Monday, yesterday. At that time we got positive responses from some members and not from others. I certainly wish to make the record clear that the fact that a particular member is not a co-sponsor of the bill—It was only members of the subcommittee we checked to begin with—doesn't mean anything with respect to his position. As the gentleman from Illinois pointed out, as one who is opposed to the change that was made, he would certainly be among those who would be foremost in the effort to move back to the area in which we were.

But it came upon him all of a sudden and there wasn't a chance to consider it and I am sorry for that. I wanted to get these hearings going this week so we could get some record on which we could base some possible action.

Mr. Erlenborn. I thank the chairman for that explanation. I think the chairman can understand why it is important to have that explanation in the record because conclusions could be drawn, and probably have been drawn, from the fact that this bill was introduced with the sponsorship of the Democratic members of the subcommittee and no Republican members.

I thank the chairman for explaining for the record how that came about.

Mr. O'Hara. Thank you very much, I am sure the subcommittee will be able to work out something that will meet with the satisfaction of the members on both sides of the aisle.

The chair is pleased to note the presence of the ranking minority member of the full committee, the gentleman from Minnesota, Mr. Quie. The chair would be willing to yield to the gentleman for a statement if wishes, or, if he wishes, to save his fire.

Mr. Quie. I thank the gentleman. I will save my fire for later. I just whispered to John Erlenborn I will be glad to be known as in opposition to the bill.

Mr. O'Hara. I am sure if we had a bill that everybody is for there would be some reason to be suspicious. Maybe we will all be in opposition before we get through.

Mr. QUIE. I hope so.

Mr. O'HARA. Our first witness will be Mr. Donald Payton, who is known to all members of the subcommittee, who is president of the national council of higher education loan programs.

Mr. Payton is accompanied by Carol Wennerdahl, who is administrative director of educational loans in the Illinois guaranteed loan program.

STATEMENT OF DONALD PAYTON, PRESIDENT, NATIONAL COUNCIL OF HIGHER EDUCATION LOAN PROGRAMS, ACCOMPANIED BY CAROL WENNERDAHL, ADMINISTRATIVE DIRECTOR, EDUCATIONAL LOANS, ILLINOIS GUARANTEED LOAN PROGRAM AND JAY EVANS, PENNSYLVANIA HIGHER EDUCATION ASSISTANCE AUTHORITY

Mr. PAYTON. Thank you. Good morning, Mr. Chairman.

I would like to introduce other State representatives: Mr. Jay Evans, president-elect of Pennsylvania, Stan Broadway from North Carolina, Mary Atkinson from Georgia, Vincent Maiocco from Connecticut, Sam Johnson from Pennsylvania, Helga Holst and Joe Cosgrove from Massachusetts, and Sue Feeney from the State of Washington.

With your permission, Mr. Chairman, I would like to read into the record a prepared statement on behalf of the national council.

Mr. O'HARA. We would enjoy hearing it.

Mr. PAYTON. It is an honor for the National Council of Higher Education Loan Programs to again appear before the House Special Subcommittee on Education to discuss the guaranteed student loan program.

Although there are many problems of varying degrees of importance troubling the program at this time, the single most critical issue facing us is the inability of many students to obtain the loans they seek to complete their education.

Mr. Chairman, the fact that you have invited us here at this early date demonstrates very well that you share our concern about this problem.

Mr. Chairman the council appeared before you last July during the critical part of this program and shortly before you recessed during the month of August. It has been typical in the past that, when called to testify, the council would hasten to meet on the day or night before the scheduled testimony to collect its thoughts and then prepare written and oral testimony for the occasion to follow the ensuing day.

Last fall, following the congressional recess, it was our hope and anticipation that further congressional hearings on issues confronting the student loan program would be held at that time.

Accordingly, in an effort to avoid just such a last-minute meeting, and to be prepared when receiving your call, and in an effort to be of greater assistance to you and your staff members, as well as others, I, as president of the council, convened the council for extensive discussions here in Washington last September.

As a result of those discussions our council developed an issue paper. In our minutes of those meetings we adopted positions relative to many issues, large and small, which were at issue, in our opinion, in the loan program.

Copies of those documents have been furnished to each of you.

[See page 377 (appendix C) for issue paper of the National Council of Higher Education Loan Programs.]

Mr. PAYTON. The time passes fast and we find that the hour again might tend to grow late at this stage. On January 19, by letter to members of the council, I asked the council to convene here in Washington again this week on Wednesday because, as I stated in that letter, Congress has taken no action to amend the student loan law and there is no certainty that hearings will be held or that the Congress will take any action respecting the program, other than to extend the expiration date of the special allowance law.

I asked our 25 States to meet here on Wednesday of this week and come prepared to suggest ways in which we might impel the Congress to act at this time. The rapid developments of last week and the last few days are indeed welcome by us in advance of our meeting tomorrow.

The call on Friday to be here this morning is good news to us, notwithstanding the fact that many of us on Friday and over the weekend were heavily engaged with legislative matters in our own States.

Fortunately, because of our meetings last fall we can, today, respond positively to the concept of the proposals before you, and those which you have made, both yours and the Senate's.

Mr. Chairman, eligibility of students to obtain a subsidized loan to further their education is the single, central, and most overriding issue which we hope this Congress will resolve favorably for students within the next few weeks, putting all other issues aside temporarily, but only temporarily. Other issues or countervailing arguments should not delay you in any way in acting promptly upon the central issue embodied in your bill, and that issue is the issue of the needs test currently imposed upon the program.

As experienced loan program administrators, it is our opinion that the health of this program cannot be restored until the lending community, who participates on a voluntary basis, is given a program which is free of the red tape and excess paperwork which greatly increase their administrative costs.

It is further our opinion that the introduction of the needs test into this program by the education amendments of 1972 not only increased a lender's paperwork and costs, but it also introduced him to the new frustration of having to wait weeks after his initial contact with a student for the needs test result to indicate the student's eligibility or lack of eligibility for a subsidized loan.

Needless to say, this processing delay frustrated even more the thousands of students who applied for loans in July and August only to find that their funds, in many cases, would not be disbursed until well after tuition payments were due.

For these and other reasons in our last appearance before this subcommittee, we advocated a solution which would eliminate the necessity of a needs test for a large percentage of our applicants.

However, equal with our concern for the lender's administrative problems is our conviction that those problems must not be solved at the expense of adding additional costs on the shoulders of student borrowers.

In 1965, this program was legislated as a means of providing the middle-income family a low-cost means of spreading their educational cost burdens over a more reasonable period of time.

At that time, the concepts of interest subsidy, which was substituted to provide loans at low rates, was by far one of the least expensive of the forms of educational cost relief for middle-income families which were under consideration by the Congress.

We do not agree with some opinions that interest subsidy for student loans represents a windfall for middle-income families.

In a recent conversation, one of our council members likened some of the claims made about middle-income subsidized loans to some of the claims made in connection with certain food products.

There are items on our supermart shelves which have had nearly every natural vitamin milled, bleached, or cooked out of it. But the manufacturer will return a few synthetic vitamins to the recipe, and will label the product as fortified or "enriched."

For the last few years, we feel we have been watching millions of dollars being "milled" from the pockets of our country's middle-income families as they are being forced to bear more and more of the costs of our country's educational programs.

Then, when a fraction of those dollars is used as a subsidy to permit those families to finance, at a low rate, the often backbreaking educational costs, there are those who seek to label those families "enriched."

Mr. Chairman, the members of our organization vigorously reject that label.

In our appearance before this subcommittee last July 26, we advocated that the benefits of the former law be reinstated to the disenfranchised middle-income families who were suddenly denied eligibility for interest benefits under the educational benefits of 1972, which often resulted in their inability to secure any loan funds at all.

However, in advocating the "15/15 Proposal" before this subcommittee last July, we also took note in our testimony that the purchasing power of $1 had been eroded, as you stated this morning it is a figure even higher than our remarks.

This means that purchasing power of $15,000 in 1965 would be equal to the purchasing power of approximately $21,500 or greater at this time. When our council members have deliberated this issue in the past, at no time did I sense that it was the will of the council that either the $1,500 loan figure or the $15,000 adjusted family income component of the "15/15 Proposal" be considered the absolute maximum figures that might be desirable.

It would be more correct to say that those amounts represented the minimum standards for interest subsidy eligibility which the council members felt should be restored to the program.

Although we will not convene a meeting of the full council until later this week, I feel comfortable in saying that few, if any, members would object to a fair and defensible increase being made in one or both of those amounts.

Mr. Chairman, we are aware you will be hearing from other parties in the next few days. While we are advocating a relaxation of the interest subsidy eligibility criteria, we are aware that others will probably contend that notwithstanding its merits and needs, such a measure would be extraordinarily expensive.

Within the last couple of years, there have been projections made of interest subsidy expenditures which were calculated perhaps in such a way as to strike fear into the hearts of legislators.

Your rekindled interest in this matter at this time, Mr. Chairman, is undoubtedly going to wear out more lead pencils and adding machines in this regard.

However, as the projections are offered to you along this line it is our hope that you will study the assumptions on which the projections are made. We would suggest you look closely at the projected average loan, the average time outstanding, the average number of times the student is expected to borrow, and the anticipated demand for new first-time loans.

We think, Mr. Chairman, it would be well to demonstrate some curiosity as to how each was determined and we would strongly urge that we all agree on the components before any calculation is undertaken and before any projection is accepted.

We program administrators have been through two successive incredibly frustrating summers. We look forward to a third such summer with absolute dread. We have proposed what we believe to be a minimal remedy, but there are others who might have you believe that the summer of 1974 will somehow be different than the summer of 1973 without any legislation.

There are those who will point out to you in your subsequent hearings that an increase in the percentage of nonsubsidized loans as evidence that lenders are changing their attitudes.

We have also heard it said that there are administrative remedies which can be taken to streamline and simplify the program for lenders.

We find no basis for those claims. It is true that a higher percentage of our current loan volume is nonsubsidized, but it must be remembered that it is a higher percentage of a much lower volume.

The increase in raw numbers of nonsubsidized loans being made is not as impressive, and it becomes even less impressive when it is realized that one-half or more of those loans were made to repeat borrowers, in other words, renewal loans, a group of students to whom lenders feel a strong moral commitment.

The claims of possible administrative remedies for lenders problems truly puzzle us. Frankly, as a body of experienced administrators in this program, we would like to know what we have missed as we have studied the law and regulations.

We have already pioneered a single, consolidated application form within some of our states. If there is some relief available within the current law that we have failed to already give our lenders, or students, we would like to know what it is.

Is there a way to determine "instant eligibility" this summer so that we *don't have the log jam of paperwork awaiting needs test* results, further alienating even more lenders?

Is there some way we can assure our lenders of a way to immediately make a $2,500 loan commitment to a student without having to worry about learning 8 weeks later that only $1,800 or less of it can be subsidized?

Is there some way we can erase the public relations problems facing our lenders as they try to convince their applicants and parents that they cannot make any certain commitments until other sets of forms are completed and sent away for a few weeks to be processed?

Is there some way we can shield our lenders from the irritating pressures from students and parents who seek loans in July and August and face an application process which often will delay the receipt of funds until well past the time tuition is due?

Is there some legal means by which to reduce the work and costs of collecting interest on nonsubsidized loans while the student is in school? If such a means exists, its attractiveness will have to surpass that of the one current option available to a lender which is to carry the interest as a "receivable" without any earnings thereon, until the loan enters the repayment period.

It is difficult to believe, with the decades of experience in student loans represented by the council members and others that an effective administrative solution would be overlooked. There also has been fear expressed that often subsidized loans to middle-income families would subject the program to abuse with loan funds purchasing everything but an education.

We think those fears are unjustified. We don't deny that an occasional program abuse exists, because it will occur inevitably when millions of loans are made in any business.

What we take exception to is the supposition that abuse is most rampant in the middle-income category. Our loans are not so large that a borrower can often purchase a car and an education with one of these loans. The abuse problems are most often with those borrowers who purchase a car instead of an education.

Our problems are with those students who never had any intention of remaining in school one minute after obtaining the loan. In almost all cases, this premeditated dropout is not the middle-income student from the suburbs whose family has been planning his college education for years.

The worst and most frequent abuses of the program still are committed by students who qualify easily under the needs test. We program administrators are secretly betting that the student who bought the red Corvette with a student loan a couple of years ago, and who thus may have innnocently changed the course of history of this program, has re-enrolled in school this year and has qualified for another subsidized loan. Only this time, he is shopping for something that gets a little better gas mileage.

By no means are we insensitive to the abuse problem. It is only that we, who live most closely to this problem, feel that the needs test missed its mark and penalized an income group largely innocent of the crime of which they have been accused.

To try to eliminate the small percentage of middle-income abuse that does exist by instituting a practice which excludes the innocent as well as the guilty seems a little to us like swatting a mosquito with a sledgehammer. The end, if that was intended, does not justify the means.

We have often been asked, by some who would want interest subsidy eligibility severely limited, if there is some means by which legislative change could make nonsubsidized loans more attractive to lenders.

If the question asked is whether or not nonsubsidized loans can be made more attractive than they are now, the answer is "yes." If the question asked is whether or not nonsubsidized loans can be made as attractive as the current subsidized loans, our opinion is "no, at least not at the current interest rates."

And we have not seen any great sentiment among policymakers on the Hill favoring an alternative which would simultaneously remove the interest subsidy on the one hand and increase the rate the borrower will pay on the other hand, and we do not favor increasing the interest the student borrower must pay on the loan.

The truth is that nonsubsidized loans cannot be made as attractive as lenders until they are as administratively simple and inexpensive as subsidized loans. Some of these approaches were discussed in our issue paper.

We could eliminate the costs of billing and collecting interest during the "in school" period by deferring collection until the repayment period. However, then the lender would have the costs associated with the loss of that money's use for several years.

Even if the interest were compounded, the earnings would be far less than what the lender could earn in alternative investments. Those lender objections could be overcome by establishing a means by which the Federal Government could pay the interest during the "in school" period and recover it later during the repayment period.

However, not only does this add a new administrative wrinkle for the lenders, he would also face the collection of a student loan portfolio whose monthly payments would be significantly higher than those on subsidized loans.

To a lender this might signal additional delinquency problems and collection costs. Of course, payments could be reduced by lengthening the repayment period on a nonsubsidized loan, but such a move would be suicidal in terms of lender relationships at this time.

Then again, the lender could be compensated for his additional costs incurred in collection of nonsubsidized loans by increasing the amount the students pay. Of course, this would further aggravate the delinquency and collection problems.

We have only small reservation about suggesting that a change be made in the interest subsidy provision. Our concern would be that the Members of the Congress might feel they have solved all the problems of the program, and we fear that it might be difficult to again gain attention for the other problems which we do feel could reach serious magnitude in the near future.

A change in the interest benefits provision will not even solve the problem of loan availability overnight. We have 18 months of negative public relations to overcome. We have lender confidence that has got to be rebuilt and in some cases built from ground level.

A change in the offending interest benefits provision will only remove the shrapnel from the body; it will take some time and some additional medication to heal the wounds left.

The national council feels that the Congress must address other problems in the next few months. You can expect requests from our organization that you consider the problem of unfair and unequal Federal investments in this program, which provide a large disincentive for active and effective State participation and investment in guaranteed student loans.

There is the problem of default prevention which must be discussed. Our organization is gravely concerned over the role of institutional lenders in this program, and their contributions to the default rate.

And, as you are aware, Mr. Chairman, of immediate concern to us is the possibility that the newly available source of funding for educational lenders through Sallie Mae may unintentionally, but severely, aggravate this problem.

Some persons might claim to be troubled about your entertaining legislation which stops short of total program reform. We see no special dangers in dealing with the interest subsidy eligibility question now, separately and immediately, with the understanding that there will be later improvements legislated in other aspects of the program.

On the contrary, we can see many dangers in following the urgings of those who would have you wait 1 more year, the implication being that another summer's experience could bring about some sudden harmony and new insights into solutions for all of the program's problems.

We would predict now that February 1974 would find the various parties to this particular problem no closer together, and the program would only grow weaker in the meantime.

We even see no dangers in altering the limits involved once the interest subsidy entitlement concept is restored to the program. We need not wed ourselves at this time to any adjusted family income amount expected to be valid for years to come.

That amount could be redetermined again in 1975. In fact, it could be escalated annually with minimal disruption to the program, if that would be the will of the Congress. Few, if any, lenders, schools, or students would show anything but a positive reaction to a new, higher adjusted family income maximum, as long as the basic concept of eligibility and simplicity was not changed once more.

We see no danger in a second legislative package within the next few months which would further improve this program as long as it would not completely change again the interest benefits provisions.

We know that surgery represents a shock to a body's system. But major surgery, regardless of how necessary, could be fatal to a weakened declining patient. Major legislation involving total program reform, regardless of how necessary, runs the risk of totally alienating what is left of the commercial lender support of this program.

The same is true if there is an action or delay for another year. What we must do now is return this program at this time to the workable and familiar interest benefits entitlement concept which was so well known and so well accepted in past years.

This will give us an opportunity, within the months ahead, to present back to you, Mr. Chairman, a considerably improved patient, an improved program, one which would, healthy again, be capable of enduring and responding to any subsequent surgery that might be needed or desirable.

The members of our council have lived closer to this program, for a longer period of time, than perhaps any other group of individuals. Our advise comes to you from decades of collective experience in observing the performances and attitudes of lenders, schools, and students in actual day-to-day confrontations with their roles in this program. Our position has not been hastily conceived by an standards of measurement.

As stated, we deliberated months ago on this issue. In the spring of 1972, our members were warning that the introduction of the needs test, at that time, would bring administrative chaos to this program.

In the fall of 1972, and again in the summer of 1973, our appeals for corrective legislation were muffled by the louder cries of those who claimed that the existing problems could be solved by administrative maneuvers.

Our position is today and has been for 2 years, that the current statute regarding interest subsidy eligibility is unworkable. We, as a council, once again implore this committee to advocate legislative change which will restore to our program the concept of interest subsidy entitled on the basis of adjust family income level.

By doing so, the lenders will have hope of a program which is, again, administratively streamlined, the schools will again have hope of a program which is free of the mountains of needs analysis evaluations each August and September, we, as guarantors, will have hope of enjoying one sane summer, and the middle-income families of America will have restored to them the faith that the congressional concern for their plight, which was so clearly embodied in the original purpose of the program, still lives within this subcommittee, and within the halls of Congress.

In addition, Mr. Chairman and in closing, I would like to point out that we feel that it is imperative that the special allowance law scheduled to expire this June be now extended by the Congress at an early date so that our lenders can rest assured that this program will remain sensitive to the erratic month-to-month and year-to-year market conditions in the economy.

We do appreciate the invitation to appear before your subcommittee, Mr. Chairman. We, and the individual members representing the States that are here with me today, will be happy to attempt to answer any questions that members of the subcommittee may have.

Thank you.

Mr. O'HARA. Thank you very much, Mr. Payton.

The chairman would like to acknowledge the presence of Mr. Gaydos and Mr. Lehman, in addition to those who were here earlier.

The Chair would like to review, just for a moment or two, the rationale for this sort of separate consideration of the change that is embodied in the bill before us. You will remember very well how last summer, as the summer wore on, students were making preparations for the academic year beginning in September, and that the reports coming to the committee of sharply reduced loan volume, which was suspected was a result of the change in the 1972 amendments, and you will recall that we sent out our staff to various regions to determine just what was happening in the guaranteed student loan program.

They came back and reported to us that there had been a sharp drop in loan volume and that it was related, among other things—and related in a significant degree—to the 1972 amendments.

At that time you were suggesting the so-called "15-15 proposal". Here we were. It was the 26th of July, as I recall, when we had our hearing and the question before us at that time was were we going to be able to do anything before the Congress recessed for the regular August recess.

It was felt that if we were to do anything at all to correct the situation, we had to do it immediately before we left for the August recess. And it was our determination that it would be impossible to make such a change. It needed unanimous consent at several stages of the process, which we determined we were not going to be able to obtain.

Then the question was, if we couldn't get it through before the August recess what then should we do. Should we start to proceed with the changes that had been suggested, or some similar change with respect to the needs analysis test?

That was pretty general at that time, that if we started down that road and then recessed for the month of August and came back the week after Labor Day, what we would have succeeded in doing was completely stopping the flow of guaranteed student loans for those wishing to obtain such loans for the semester beginning in September.

We would have created a degree of uncertainty about the program that would have just killed whatever interest lenders had left in using this program. And so, we said, under the circumstances, as much as some of us feel that the change is terribly necessary, we had better make it clear that we are not contemplating any immediate change, but instead, work down this other road of getting the Department and the General Accounting Office and others to agree that both the banks and the student loan officers had flexibility in connection with these needs analyses so that we could, without changing the law, at least loosen things up a little bit.

We thought that was better than the kind of cessation that would have occurred if we had started down the legislative process and left it undone while we went off on recess.

So, we decided to do nothing in terms of legislation at that time for fear of disturbing the activities that were going on, but not with any notion that we liked the way the program was operating.

Now we have gotten by all of that. Whatever loans are going to be made to students for the fall semester, indeed, whatever loans are going to be made for students for the spring semester have now been made. The processing is largely out of the way and we are not going to throw consternation into the lending community if we now consider a sensible change in the law that would have an immediate effect because this time is not one of our peak times.

And so I thought it would make sense, especially in light of what is going on in the Senate, to consider such a change. I had hoped to take this up as part of the general overall review, but it never was my intention that any action on this particular aspect of it would have to wait overall action.

I thought of having you in here to testify about a number of different things, this being one of them. Now events have sort of forced my hand, but we have to recognize the differences between what we are dealing with here and the kind of legislative oversight that we hope to undertake very shortly of the entire student assistance program, looking toward a possible rearrangement of the student assistance package for the school year beginning in September 1975, not in September of 1974.

Indeed, we just finished approving the BOG regulations for the school year beginning September 1974. We don't anticipate that this general legislative oversight review restructure of the student assistance program is going to be a complete restructuring for the school year beginning September 1974.

I think the school year beginning September 1974, with some excepitons, is pretty well on the track now and there is no sensible way of making any sizable rearrangement of that program this spring.

But I think we are looking toward a rearrangement for the subsequent years in our general oversight with, I say again, some possible exceptions. You would have to, in effect, put things in two categories; those things that could be done effective immediately that would make sense, and those things that could not be.

But for most of it I don't see as you point out in your testimony, anyone who would be frightened if we now said you don't need the needs analysis anymore, if the adjusted gross income is less than $20,000 or $15,000, or $50,000. I don't think that is going to excite anyone and cause them to throw up their hands and say, "I can't bear these changes". Even bankers are used to living in a changing world and they are not all that easily frightened.

So, I think we can consider these things.

And your group is meeting tomorrow?

Mr. PAYTON. Yes, the entire group is meeting tomorrow. We will be discussing other issues, some of which we referred to.

Mr. O'HARA. I appreciated your statement that you didn't feel the consensus of the group, when you proposed the 15–15 was that 15–15 should be a maximum but that 15–15 should be a minimum.

If you could get some formal statement to that effect, perhaps a formal reaction on 20–20, that might be helpful.

Mr. PAYTON. We will discuss it.

Mr. O'HARA. I don't know how your procedures work. It may or may not be possible.

Mr. PAYTON. I am sure it would be a subject for discussion in our meetings tomorrow and Thursday. But, as stated in the testimony, our group is on record officially as supporting the 15–15 concept with that not being a maximum as such.

It is a concept of restoring the program to what it was before, and which we thought there was a basis for stating in the minutes of the joint council's committee report dealing with the 1972 amendments.

Mr. O'HARA. I thank you for your testimony. We may have to leave any minute so I am going to avoid the usual 45 minutes the chairman takes for himself first and let the other members have a chance.

As soon as they approach a quorum in the full committee meeting downstairs we are going to have to adjourn this hearing.

Mr. Dellenback.

Mr. DELLENBACK. Thank you very much, Mr. Chairman.

We are grateful for your coming back again. As I said in the opening statement, there is no question about your expertise. Your help in the past has been considerable and we appreciate your insight.

I make one opening statement in view of the meeting that is coming up. I hope that you will, at the meeting, be discussing other features that you think ought to be amended as you get together.

I think you have indicated that you intend to do that and not just this one question because as your testimony pointed out, there are other features of this issue. Whether or not they all ought to be insolubly wedded together so you make just one change, or whether you make it in a series of moves, those are the possible changes of major importance.

I don't know if you agree, but I hope you will come from this meeting with other suggestions for us concerning the type of change that ought to be made in the presently existing program.

Just so that we may get some idea, do I recall correctly that this national council represents about 25 of the States?

Mr. PAYTON. Yes, sir.

Mr. DELLENBACK. Twenty-five that are involved in this, and there are another 25 that are not involved.

Mr. PAYTON. Basically.

Mr. DELLENBACK. When we were dealing with it last year, we were into a situation where some of your States really felt, for a variety of reasons, we shouldn't go ahead at that particular time.

Mr. PAYTON. You are speaking of last July? Yes, there were a few States at that particular date and time.

Mr. DELLENBACK. For the time reasons that the chairman alludes to, because we found ourselves in a very difficult time situation and your group was divided somewhat on whether to move ahead at that particular moment——

Mr. PAYTON. At that point, merely because it was the last of July, the first of August. February 4 or 5 is a good date, however.

Mr. DELLENBACK. Actually, the history of this would indicate that as to timing, we are not really quite at the low ebb yet in the guarantee situation. Some of the figures for fiscal 1972 would indicate that in numbers of applicants we hit our high in about August.

Then it drops steadily through October, November, and December and surges up a little bit in late December and January, then drops in February, drops further in March, drops further in April, and then back up again in May.

This is the general history of the thing. So, in February we are still on the falling part of the curve. I am thinking in terms of the time we should move. While I recognize you can't change one minute and immediately have it effective—there is a time lag—we will hit the low point in the curve probably in April–May. Then it starts back up in May and June and rises in July. It peaks in August and September and then goes from there. Is this roughly the time?

Mr. PAYTON. That is correct. I would like to state it differently. We began the acceleration of processing for the next school year along about May, the period of April and May. Those loans are being processed for the following school year.

Therefore, we need timely action by Congress with a conclusion and an effective date of the law that will enable us to reprint forms, to regear computer systems, to disseminate information and to have the process operational by April.

Mr. DELLENBACK. I am just trying to get the flow of things, and I said there is a time lag involved in this operation. Now is really—that is, the next month—the time best to be moving on it.

Mr. PAYTON. The most optimum time right now is right now, February, March, and April. By then we need to have all of the mechanics, the new forms, the new computer systems finished, distributed, meetings held and concluded.

My opinion would be that final action on this central issue by Congress would be desirable within 30 to 45 days. I am not saying that we can't work if your final action doesn't come in May. Let's not delay that if there is any possible way, the conclusion of this issue at an early date.

Mr. DELLENBACK. Do we have, Mr. Payton, any statistics that would be helpful to the subcommittee as to the effect on access of the needs test? We do have comparable figures as to numbers of granted or approved applications, both in numbers of people and in dollars involved.

Have you been able to come up with any indications as to access, however? Has there been a fadeoff in the number of students who would have gone to school had the loan come through but who can say, "We did not go because the loan did not come through"?

Mr. PAYTON. Congressman Dellenback, I am able to respond to that personally, merely because, as a matter of coincidence I held a lenders meeting on Wednesday of last week with about 24 of my major lenders throughout the State of Georgia representing all geographical areas and I put to them a number of questions and one was this question.

I stated to them that we have been asked time and time again, "Can you identify students who are not in college this year because of the needs test and their inability to obtain a guaranteed loan."

And I stated to them, "You are the ones that know the students and the parents. You deal with them. So I ask you this question. Do you know students in your home community that are not in college this year because of an inability to obtain an educational loan?"

Almost uniformily almost all of those 24 leaders responded in the affirmative. They stated that they knew boys and girls in their home towns that were not in college that would have been in college under the prior system of processing loans.

Mr. DELLENBACK. In other words, there were real needs that were unmet.

Mr. PAYTON. According to them, very definite needs which they could identify by name in their home communities. I am fortunate to be able to report to you because I just held this meeting last Wednesday.

Mr. DELLENBACK. Did you pose the question with them, Mr. Payton, whether they had used the flexibility which was involved in the program which was aimed at that very situation? Anytime there was real need—and remember that both the lending institutions and educational institutions have flexibility in that there is a safety valve in the law—did the lender facing that situation where he said, "In spite of these tests there is a real need and there is a special situation that the formula doesn't fit"—still approve a loan?

Did they use it under those circumstances?

Mr. PAYTON. They did in the case of renewal students. In the case of students that they had prior moral commitments to. But the lenders, in our case, are not interested in making nonsubsidized loans at the 7-percent rate and the interest collection features with which they would be faced.

Mr. DELLENBACK. Were they fully aware, Mr. Payton, that under the law there is a provision——

Mr. PAYTON. I am talking about the overall. They are aware of it, perhaps not as much so as they should be, but they are aware of it. They do not feel safe in exercising that. They do not feel safe in doing it. They do not want to do it.

Mr. DELLENBACK. Did they say why? This is one of the very things that we worked for. We had people from the Office of Education before this subcommittee, and we had the people who dealt with this on the campuses in the student aid offices, and what we got we thought, from the Office of Education, was a rather good clarification to the lenders. They said if you face this situation you will have freedom from audit, or your audits will not be of a stringent nature, to bring you back under this situation.

Don't they believe the Office of Education?

Mr. PAYTON. I suppose the simple answer to your question Mr. Dellenback, is they simply don't love this program that well, and they don't like the mechanism which you have given to them. They don't like the format that you have laid before them. They don't love it well enough to buy that format and mechanism.

Mr. DELLENBACK. You recognize it is a voluntary program and it has to be taken into account all the way through, Mr. Payton, that we must have a method of inducing them to be involved.

You have touched on some of that in your testimony. May I ask this? Do you see any other relationship between the needs test and what some of us are concerned about in the increasing declarations of independence by young students as we go down the pike?

Can I toss that to one of you?

Ms. **WENNERDAHL**. We have noticed from the beginning of the program some skepticism on the college financial aid office's part in the student's certification of independence, even back in the adjusted family income days where mother and father filled out a partial needs analysis form, if you will, to determine eligibility for Federal interest benefits at that time.

Adding assets to that statement may have aggravated the problem a little bit further. Our complaints had been no greater in my state or no less. The fact of the matter is, we serve, on the average, a much older population than the other programs traditionally have served, and therefore, we will have a far higher percentage of indendent students as a matter of course.

Mr. **DELLENBACK**. Let me ask the question again. Is it not true that if there is a needs test, it is apt to result in many students who would otherwise be trapped by the needs test and not eligible for loans because of family income, declaring themselves independent of the family and applying on their own because their own income is lower?

Mr. **PAYTON**. I see the point you are driving at, Congressman Dellenback. I think none of us are quite sure whether the new age of majority laws, or things of this nature, are going to lead us in the area of student financial aid at the state level.

In our own programs we still impose the financial requirements and positions for purposes of grants and scholarship programs, and our state operations, on the premise that the state is administering the program and dividing the grant money and it can prescribe those criteria.

I am simply not able to answer where the new age-of-majority laws and efforts to declare ones self as independent and the exact ramifications it will have on these issues.

Mr. **DELLENBACK**. Sitting here on the subcommittee, I want to bring out all the sides of this for identification and the soundest policy we can generate. I think this point to which I now have directed these last couple of questions is extremely important to this issue. It is an issue that, frankly, if I see the facts correctly, will give you strong argumentation for the point you are striving to make.

I would urge you to take a good hard look at that; not because I am trying to hand you an answer or irrefutible argument from the side you are really pushing, but because I really think that is a genuinely important aspect of what this subcommittee ought to be looking at.

I would like as much information on this as we can get from you because I think these new age-of-majority laws—the questions that will be raised which are beginning to appear on the legal horizon about constitutional questions, about needs tests per se—are part of what this subcommittee ought to be looking at and will have an impact on what we do.

So, I throw it out to you to look at and then, at some later time, get back to us.

Mr. **PAYTON**. It is not an easy subject.

Mr. **DELLENBACK**. It is difficult to come up with hard data on it, but a good sweeping generalization is one that Willie Mays could have asked for no more in his declining.

May I ask this other query that comes from some of the data from the study of the commission that has recently reported? One of the charts, table IV–1, deals in terms of age grouping with income levels in the total population, and then what percentage of that age grouping within that income level are involved in either collegiate or noncollegiate institutions and you find this kind of relationship:

In the under $3,000, whereas 8.6 percent of the population is in that group, of the 18- to 24-year old population in that group only 4.1 percent are attending collegiate institutions.

In the $3,000 to $6,000, whereas 14.4 percent of that population are in that group, only 12.1 percent are attending collegiate institutions.

If you take the $6,000 to $7,500 population, whereas 16.7 percent of the age group is in that income level, only 6.9 percent go on to college. When you deal with those low income levels, you really find great disparity in the percentages of the young people who are in those groups who go on to college.

As soon as you start moving to $10,000 and above you find it shifts the other way. In the $10,000 to $15,000, 25.2 percent of the 18 to 24 age group are from that income level, 29.4 percent are in college.

When you get to the $15,000 to $25,000 group you get 12.7 percent of the age group in that, but 23.4 percent are in collegiate institutions.

What it really says to us, at least to me, if you are talking about what percentage of young people are really going on to collegiate institutions, the figures bear out what we refer to as the middle-income group having a very much higher percentage going on to collegiate institutions than in the lower.

If you really look at it hard, there is much more than dollars involved in this. There are a host of other factors in the picture: family involvement, history, and all sorts of things. But it leads to this question:

Granted that we have limited dollars, and there can only be so many Federal dollars that are going to be useable for Federal assistance, where do the dollars for this kind of loan program fit prioritywise compared to BOG, Work-Study, CI?

Would you have any comment that you could make on that? If we had limitless dollars it would be one thing, but we are constantly facing the fact that while we keep fighting to get that figure up, we are always fighting against a ceiling.

Would you have something you could contribute to the record on the priority of the utilization of Federal dollars in this particular program versus using those dollars elsewhere?

Mr. PAYTON. Congressman Dellenback, I am not surprised at such figures. I can't quote or comment off of those. I don't have them before me. I have not digested them. But I think it is common knowledge that you have a higher percentage or proportion of students from the higher income families attending college as the income of the family increases.

But you are asking me a question as to where the priorities should be as between the various Federal student aid programs. I think Congress itself has recognized that priority by establishing the grant type programs and targeting those, which are 100 percent Federal funds, to the poorer of the group, the financially poor.

I think the State incentive programs encourages States to match Federal funds on a 50-50 basis and is a further recognition and improvement over past programs, which is, again, targeted, shall we say, to the next higher step on the ladder. It is still to the lower income group.

But when you get to the $10,000 level family group and to the group we are talking about here in the area of the student loan program serving them, we are not talking about providing them with BOG money, or SOG money, or SIG money. We are talking about enabling them to borrow with an obligation to repay, and the only aid in this sense of the word that is provided is assistance to a low-interest loan.

To my knowledge, this is the only real program of the Government that is designed to assist the middle-income family. Considering inflation and the cost of education, I think it is altogether fair.

I would not choose to choose between those programs. As a matter of fact, I would rather choose my priorities as education as opposed to some other area of Federal expenditure. At that point I would put a high priority on education, including the subsidized loan program.

Mr. **Dellenback**. Everybody on this committee, Mr. Payton, would agree with what you are saying—the generalization of giving education a high priority vis-a-vis other needs. But, you see, we can't duck the question of priorities within education. Quite frankly, that is what we have to finally deal with in authorizations and, in the final analysis, appropriations.

Some of us who have fought very hard, and this includes probably all the members of this subcommittee, for increased funding for the BOG program and also for work-study and CI are not saying there shouldn't be funds for loan programs.

It is just that we are sorely troubled when we realize that in the 1975 budget the guaranteed loan subsidies and defaults statistics consume more than 20 percent of all OE student aid appropriations. Thus, we are already into this figure for a substantial amount.

And, if you will, the discussion of what we ought to do with the needs test is, it seems to me, inextricably tied to this. If we can find that the application of a needs test has denied access, and we can come up with hard figures along the line of what you have indicated you have gotten generalizations on, that is helpful to us because it says something hard about young people who didn't get to go.

We know there are hard figures available with BOG and other programs—It makes a difference. If you get this grant, you go; if you don't get the grant, you don't go and you can come up with hard figures on that. I think you have a burden to present to us hard figures which we are pushing for.

If we were to wipe out all of the subsidy, for example, maybe that would be a desirable move because that would open up about $300 million or so for other kinds of help. Maybe we ought to go forward with something else. Maybe we ought to eliminate the needs test entirely, but not 15/20 or any other limit. Maybe at the same time as part of that, we should eliminate the question of the inschool subsidy. Maybe that would be a desirable move.

I will close with this, Mr. Chairman. This is why I expressed the hope that in your meeting this week you will discuss not just this application of the needs test, but also that you will come back to us with some sort of a look at the other items of the package too.

I am not saying we should wait action on this, but I think it is tied together.

Mr. Payton. If I might respond to your closing statement, I would just like to say I think Congress, in one respect is making a very positive step forward in a BOG, SIG concept and I would hope both houses of this Congress would push forward toward the ultimate total funding of both of those programs, whatever total funding might mean.

I don't know the cost. The fact is that we are just now in the first year of the BOG program and looking forward to the second. The first year of the SIG program is not upon us yet. We are looking forward to that.

My legislature today is appropriating the necessary funds. I am confident that it is, and that your program is reaping this result. But I think Congress acted too hastily in the Education Amendments of 1972 when it envisioned BOG, SIG, and the other programs.

It acted too hastily in the area of the student loan program and the elimination restriction or termination of interest benefits. If, and when, we get back down the road, which is some years away, when the grant programs, State and Federal, are adequately funded, when we reach that point of processing where BOG processing comes early, January or February, State processing in March, April, May, you see falling together a package of student aid, one built upon another.

And if the processing for a subsidized loan properly then falls at its rightful place, which would be subsequent to the processing available to the programs, then we have a built-in restriction to the program already in it in that being the student cannot borrow more than the difference between his school costs and the resources that are available to him.

We have never been in that world, Mr. Dellenback, because students, in the nature of the way things are, have always been forced to apply for loans early because they can never be certain of the other.

So, I would urge you to move ahead with those portions of the 1972 law and help bring this Nation, Federal and State, together to adequate funding of those programs, the proper packaging and the orderly flow of that and then you will wind up automatically, on the face of application forms, with applications for loans that are restricted to only the difference that remains, and that, in and of itself, will be a major improvement and a significant curtailment of loan volume.

Mr. O'Hara. The Chair is going to have to intervene. The Chair has been advised the full committee is four short of a quorum and if the four members who are present here go downstairs, they will have a quorum.

The Chair wishes to apologize to the witnesses, and especially to the gentleman from Pennsylvania and the gentleman from Florida who have been present during this hearing and who are cosponsors of the bill before us and who didn't get a chance to get their licks in.

But the Chair will have to declare an adjournment subject to call. We are in touch with educational associations, the banking community, student lobby, private guarantor organizations, and the administration in order to develop a full hearing record. We hope we will meet next week.

Mr. GAYDOS. If I might, Mr. Chairman, I just have an observation to make. I wish to congratulate you on a forthright statement. It is very simple. There is nothing complicated about it and I would like to assure my friend, Mr. Dellenback that I can give him statistics unlimited on those students who would have gone to college and didn't go because they couldn't negotiate this loan.

I think you simplified the problem, and it is an excellent statement. I thank you on behalf of the committee for the appearances you made in the past in this approach. It is very simple and right to the point.

Mr. PAYTON. The council thanks you.

Mr. O'HARA. The subcommittee is adjourned.

[Whereupon, at 10:28 a.m. the subcommittee adjourned, subject to the call of the Chair.]

HIGHER EDUCATION LOAN PROGRAMS

WEDNESDAY, FEBRUARY 13, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10:05 a.m., pursuant to notice, in room 2257, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Biaggi, and Lehman.

Staff Present: Jim Harrison, staff director; Robert C. Andringa, minority staff director; Al Franklin, counsel; and Elnora Teets, clerk;

Mr. O'Hara. The Special Subcommittee on Education will come to order.

Today, we are continuing our public hearings on H.R. 12523 and related bills to eliminate needs analysis in the guaranteed loan program for students whose families have adjusted incomes under $20,000 and who are borrowing $2,000 or less.

Since our opening hearings on February 5, I have heard from a number of people around the country who, without exception, are in support of H.R. 12523 or at least in support of the proposition that needs analysis is being utilized in such a way as to deprive a great many young people of appropriate access to postsecondary education.

I have a substantial number of letters from members of the public who, in fact, cannot afford to send their kids to school without a guaranteed loan and who have been deprived of such loans because of the misuse of the needs analysis systems in the loan program.

Our witnesses today are also involved in very direct ways with the question of guaranteed loans and needs analysis. They are students, student aid officers, and spokesmen for some of the major postsecondary education organizations. I hope they will be able to tell us if they see a need for relaxing needs analysis in the loan program and if they see any dangers in this area.

Our first witnesses then are going to be Mr. Arthur Rodbell, executive director, and Mr. Peter Coye, assistant director of the National Student Lobby.

Though the Student Lobby has testified before this subcommittee earlier, Mr. Rodbell and Mr. Coye are new to the subcommittee, and we are looking forward to hearing from you.

STATEMENTS OF ARTHUR RODBELL, EXECUTIVE DIRECTOR, AND PETER COYE, ASSISTANT DIRECTOR, NATIONAL STUDENT LOBBY

Mr. RODBELL. Mr. Chairman, to begin, I would like to thank the Special Subcommittee on Education for this opportunity to testify on the proposed amendment to section 428(a) of the Higher Education Act of 1965, as amended.

The National Student Lobby appreciated the committee's obvious concern over the financial plight of young people engaged in obtaining a postsecondary education today. Indeed, with a sagging economy, that financial plight is verging on disaster.

During the development of S. 659 and the Education Amendments of 1972, a new approach to student assistance was enacted.

The policy of entitlement or a commitment on the part of the Federal Government to establish a floor beneath which no qualified and truly needy student should fall became public law.

During the development of this legislation, the National Student Lobby testified in favor of this new approach to student assistance and to financing postsecondary education. As the cornerstone to this approach, the new legislation authorized the BOG program.

However, in addition to the BOG program, the legislative intent of S. 659 was clear with reference to other student assistance programs.

The BOG program was to be the foundation upon which other student assistance programs would build, recognizing the need for loans and work-study opportunities.

Viewed as a package, these three areas of student assistance—loans, grants and work-study—seemed, when funded, to adequately cover the financial needs of most potential college students and their parents. Unfortunately, two of these approaches to student assistance have been hampered recently. They have both been hurt, but for different reasons.

The Federal work-study money has again been cut in the proposed fiscal year 1975 budget, both in absolute dollars and by failure to keep pace with inflation. With regard to federally insured loans, the new means test has confused legislative intent.

The needs test authorized by the 1972 amendments has clouded the availability of guaranteed student loans for low- and middle-income students. Parents, students, lenders, and financial aid administrators find themselves losing the battle to keep up with Federal regulations. As a result, these student loans are being utilized less and less by the consumers of postsecondary education.

This certainly is not the result of declining need. The decline is due to:

(1) Confusion regarding access to federally insured loans due to the needs test.

(2) The means test often determines a need of so little that the paperwork involved is not worth the small loan.

(3) The needs test has multiplied paperwork involved and tripled application processing time.

With the cost of college education rising, plus tuition increases recommended by both the CED and Carnegie reports, a decline in a student loan program such as GSL is alarming, as is the proposed decrease in college work-study money.

As stated earlier, the loans, grants, and work-study are all essential to a strong and comprehensive student assistance package. In our view, the weakening of one program threatens the entire thrust of the 1972 amendments.

On February 5, the Senate acted by unanimous consent to abolish the means test for those potential students with an adjusted family income of less than $15,000. This figure represents 77 percent of all postsecondary enrollments.

Now, legislation of a similar nature is pending in this subcommittee. However, in considering the language of H.R. 12523, I would like to briefly point out four principles students hold crucial to this discussion.

1. The idea of entitlement is essential to the student aid package. With regard to the GSL program, the means test has substantially qualified this approach by reducing access. We believe the GSL should return to the concept that once a student qualifies for a loan, he or she should be entitled to apply for a loan up to $1,500 or $2,000 per year.

2. No student should be encouraged or forced to become mortgaged up to his neck to the Government or to a bank. A student should not be placed in a position where he or she is forced into more than perhaps $6,000 debt for 4 years of college education, unless extenuating circumstances are shown.

3. Considering the impact which the age of majority rulings will have on the financing of postsecondary education, we urge this committee to look closely at the advantages of income contingent payback schedules for all student loans.

4. The National Student Lobby supports continued funding of the loan, grant, and work-study programs.

We have heard several people guess widely different figures for the total cost of the GSL program under the Senate amendment.

The National Student Lobby doesn't have access to "guesstimations" regarding the Senate's proposed change, or the House's version. Given this, and the fact that we hold all three aid programs equally important, we have difficulty seeing these proposed alterations in terms of their effect on the total student aid picture.

Obviously, student assistance funds are limited and it is our expectation that if the means test is abolished below either the $15,000 or $20,000 family income figure, the cost of the GSL program will not seriously cut into appropriations for other programs.

We need to reexamine between now and June 30, 1975, the entire family contribution basis of student loans and other student financial aid programs.

The financing of postsecondary education has been rapidly changing and evolving. In the next years—and perhaps quicker than most realize—the age of majority and emancipated youths will bring new and awesome burdens to the scope and nature of financing this part of the educational enterprise.

We predict this will be the major issue in the 1975 education amendments dealing with postsecondary education.

The demand pressures on GSL will increase. The loan program—in some form—will likely expand. The National Student Lobby urges this committee to adopt the four principles outlined earlier in this statement, and take special care to insure the idea of "income contingency" is closely examined in the proposed 1975 legislation.

From the student standpoint, this concept embodies equality and freedom in both an educational sense and an economic sense after graduation. It allows the student to attend the type of institution he or she desires and upon graduation allows a payback schedule contingent upon earned income on a year-by-year basis.

Though the National Student Lobby supports the abolition of the means test for students with a family income of less than $15,000 adjusted, this Amendment doesn't deal with the most important problems facing the GSL program today. Those are:

(1) The changes the age of majority will bring to this program in terms of demand and the State-Federal relationship under these new conditions.

(2) Establishing an understandable and comprehensive student assistant program which is easily workable.

These must be seen as the major, longrange challenges facing this committee.

Thank you.

Mr. O'HARA. Thank you.

First, I think the subcommittee ought to clarify its intention with respect to the guaranteed student loan program.

It is not our intention to forget about the guaranteed student loan program once this Amendment or something like this Amendment has been adopted.

Our effort is really to restore the status quo ante while we consider what changes ought to be made in the guaranteed student loan program. Right now, the program is not working satisfactorily. We have only made one change in it in recent years and that change has hampered its effectiveness.

So, we want to get back to where we were.

Then, we want to consider the way the guaranteed student loan program must be changed, if it ought to be changed, in terms of our overall review of student assistance programs.

We will this spring be conducting a complete review of the various programs of student assistance, work-study, supplementary educational opportunity grants, basic educational opportunity grants, the direct student loan program, and the guaranteed student loan program.

We hope that we will be making changes in the student assistance package that will take effect in the school year beginning in the summer session, I would hope, in 1975. But, I do not really see any point in letting the present intolerable situation in guaranteed student loans continue on through next year, the next school year, because we are considering broader changes that will take effect the following year. That is the reason why we have set up this separate hearing on a very narrow aspect of one student assistance program, because we feel there is a need for some action on that aspect of the program and then that will clear the decks, it seems to us, for our general review of all aspects of this and other student assistant programs preparatory to changes that will take effect at the end of the next school year.

I hope that method of proceeding makes sense to you.

Mr. Rodbell. Yes; it does.

We would naturally hope to bring to your attention, of course, the other programs that we will be testifying on on Friday. We wanted to take this opportunity to state our position on it.

Mr. O'Hara. Now, the Senate Amendment, as you know, differs somewhat from the Amendment that we are considering. It differs but it differs with regard to two items:

First, the Senate Amendment proposes to abandon the needs analysis as a test for families having adjusted incomes of less than $15,000 a year. This amendment proposes $20,000.

The Senate amendment abandons needs analysis only if the loans sought by this family were less than $1,500 a year.

The bill before you provides for abandoning the needs analysis if the income requirements are met and if the loan sought is not in excess of $2,000 per school year.

We felt when we introduced the bill on this side that $20,000 was the more appropriate figure because we recognized that although the $15,000 figure was what we had used when we originally enacted the program some years ago, and it seemed to work fairly well, that the equivalent of $15,000 family income that we were talking about back then is a family income of more than $20,000 today.

So, we were simply adjusting the original concept of the program to take account of the changes in the cost of living and, of course, changes in the expenses of attending an institution of postsecondary education which have risen faster than the cost of living.

So that with our $20,000 and $2,000, we were attempting to take into account these changes in the cost of attending postsecondary education institutions and in the cost of supporting a family.

I would hope that you would not have any objection to our doing so.

Has your organization taken any position on that?

Mr. Rodbell. Our position is that, as far as the Senate version, that would be a minimum condition. Of course, we would be supportive of any plan the conferees decide between the $15,000 and the $20,000.

Mr. Coye. The difference is something like 77 percent of all postsecondary enrollment are in the $15,000 or below and something like 89 percent of all post secondary enrollments are in the $20,000 adjusted or below.

I was curious if you had any guess as to what the cost of the program would be with this 12 percent difference between the House and Senate amendments.

Mr. O'Hara. We hope to develop that during the hearings. We haven't had those witnesses before us as yet.

The minority members of the committee have not been able to attend the hearing today, so after Mr. Lehman has had an opportunity to direct whatever questions he might have to the witnesses, the Chair intends to permit Mr. Robert Andringa, who is the minority staff director of the committee, to question the witnesses on behalf of the minority.

Mr. Lehman, do you have any question?

· Mr. **Lehman.** Not very many.

I am going to have to go to another meeting.

We did hold a Sallie Mae meeting in my district in south Florida last Friday morning to try to get a group from the institutions as well as the banks together to encourage the banks to use this rediscount basis which should, in effect, stimulate and release additional money.

I think one of the main things we are going to have to do is to really motivate the banks to take a more active part in the whole program. I would say less than 20 percent of the banks really were that concerned or that interested in this kind of program. It was discouraging to see how many banks really didn't care but encouraging to see how much the minority of the banks did care, especially your savings and loan institutions, which are not really commercial banks.

I would like to call that to the attention of both the committee and to the people here.

Mr. Chairman, if you will excuse me, in a few minutes I will retire.

Mr. **O'Hara.** Mr. Andringa.

Mr. **Andringa.** As the chairman knows, some of our members are interested in looking at some additional changes in the program in the next couple weeks, even though the chairman intends to have these hearings limited to this one particular issue.

Our members would be interested in your views on the 18-year-old age-of-majority. I have not been able to get up-to-date information on the number of States that now allow 18-year-olds to contract.

Does the Lobby have any information?

Mr. **Rodbell.** The program is new to us.

Our access to the program has come through the State of Wisconsin.

Mr. **Coye.** As far as the number of States that have passed age-of-majority, I don't have that figure at hand.

Mr. **Rodbell.** Testimony will be available on that on Friday.

Mr. **Andringa.** You see, isn't it a worthwhile question to ask, if an 18-year-old is an adult in the majority of States then why would we deny access to a loan or limit the size of a loan or deny certain subsidies for a loan to some students and not to other students becasue of their parents' income?

Mr. **Coye.** We are aware of the problems that the age-of-majority is going to bring to the financial and postsecondary education. I think that is why in the testimony we have tried to stress and we are very much interested in this income contingent program which you will hear detailed testimony on Friday of this week.

I think that sort of approach, and we do intend to have the support data or anything else we have developed on that, that sort of program deals with that question that you mentioned, that idea of becoming a full adult at the age of 18, independent of any parental restriction, financial or otherwise.

Mr. **Rodbell.** Of course, the question will have to be resolved in how it is phrased in the law, itself, and should it be passed, what the stipulation is. Is it just something of an extenuating circumstance or is this going to entail student participation as an adult at any age of 18 in every facet?

Mr. **Andringa**. Is it usually the student borrower who repays the loan?

Mr. **Rodbell**. In the particular program which we are talking about, the student repays the loan; right; year-by-year basis, contingent on his income after graduation.

Mr. **Andringa**. I think you are confusing the subcommittee by talking about a program they may not be aware of.

Let us talk about the present program.

Is it your understanding that students, in the main, pay back the loan after they leave school?

Mr. **Rodbell**. It is our understanding that it is designed that students pay back the loan. In many cases, many students are not able to meet it in the required time.

Mr. **Andringa**. We will get into default in a moment.

Do you see any difference in the way the Federal Government ought to deal with this program in terms of the 18-year-old age-of-majority at this stage of the game than it might deal with some other program, perhaps a grant program that aims primarily at access to postsecondary education?

Is there a unique rationale perhaps for recognizing the 18-year-old age-of-majority first in a guaranteed loan program?

Mr. **Coye**. I am not sure that I understand exactly what you are asking.

I sense it deals with whether the student is going to be considered a full adult at age 18, whether you are going to consider his family income to be the basis for a loan or consider him to be essentially at point zero.

Is that right?

Mr. **Andringa**. What I am getting at is: If the student pays back the loan, then why should you say to the student whose parents happen to make $15,000, "You cannot have any loan unless you are fortunate enough to find someone who will give an unsubsidized loan.

The next student, because his family happens to make $14,999, you say, 'You may have a loan; you may have a subsidized loan; you may have it up to the maximum amount."

Representing students, it just seems unusual that you would be in support of that kind of policy.

Mr. **Coye**. We are looking down the throat of the 1975 amendments, which are just around the corner. That is why I think we tried to outline in this testimony where we see it going. That is the income contingent loan.

Does that deal with what you are trying to——

Mr. **Andringa**. No.

Mr. **Coye**. You are dealing with GSL.

Mr. **Rodbell**. What is the difference between $15,000 in one family if it is based on the student paying it back and not the family paying it back?

The control seems to come from the Government point of view at this point. So, what we are really talking about is eliminating the means test which is really unnecessary as it hampers what actual accessibility the family has to a program that does not burden the family. There is no difference.

Mr. **Andringa.** What would you think of a program that did away with the in-school subsidy as we know it and provided 7-percent loans to any student regardless of family income and that provided various options for the handling of the interest during school so that the student might not have to pay it while in school?

Mr. **Rodbell.** That would depend on the kind of options you are talking about. That would require further study.

Mr. **Coye.** I think our position is that if the Government was willing to pick up the in-school subsidy and the difference between the 7-percent after graduation and the real market rate, and also had an income contingent provision on it, that is exactly what we are talking about, and perhaps spread over more than 10 years.

Mr. **Rodbell.** You mentioned it would be a subsidy free within school.

Are you implying that the Government would pay the subsidy while he was in school or that there would be no requirement?

Mr. **Andringa.** There are six or eight options that could be used but some of our members think it is worthwhile to ask at this point what we are getting for $225 million a year now of in-school subsidy and whether or not doing away with the needs test and simply providing a guaranteed loan at 7-percent would still meet the needs of students, especially those from the middle-income family. This would allow the $225 million to be invested in a program that does enhance the access of additional students to postsecondary education.

How important, in your mind, is the fact that the Government pays the interest while you are in school?

Mr. **Rodbell.** It is very important. We are talking about accrued interest that is considerable, that the burdens on the students and undergraduates to pay back his loan as it stands now or even under the programs we are talking about are very great, but that they can be met by adding any extra dollars to the amount that he owes? No. 1, that would probably hamper the program and, No. 2, would, in our point of view, take away the control that the Government would have over the program.

Mr. **Coye.** I think it is very important that during the in-school period of time that the Government pick up the subsidy or the interest. If that interest is tacked on to the principal at the end, if it were on an income-contingent basis, I would be in support of—you are talking about a time lag, the same dollar figure for 10 years, so you get into the problem of inflation, but, in either situation, I think the Government picking up the subsidy during the school year is very important.

Mr. **Andringa.** I agree with you that the burden of paying back a loan, whether or not you pay the first 4 years of interest, is difficult for anyone. I assume you have looked at that burden.

Do you have any idea of what the difference is for a student in paying back a loan that was subsidized versus one that was not subsidized?

Have you studied at all—do you know what a student now pays during repayment on a subsidized loan, if he has borrowed the maximum amount of, say, $7,500?

Do you know what that amounts to a month?

Mr. **Coye.** You mean the monthly payments?

Mr. **Andringa.** Yes.

Mr. **Coye.** We don't have those figures.

Mr. **Andringa.** I would think you would want to look at that if you make the argument that it is a burden, and give us your ideas on the difference between the payment of a non-subsidized loan and the payment of a subsidized loan.

One final question, if I may, Mr. Chairman.

The default rate is something that our members are very concerned about. In 1974, the Federal budget had $92 million for defaults. In the 1975 budget, the figure is $134 million for defaults.

Do you have any idea on how the program or the procedures used by the schools or the lenders might be changed to improve that situation?

Mr. **Coye.** Our figures have the number of enrollments in the courses which talk about bankruptcy going up. So, this may indicate that the students are investigating this alternative for paybacks.

Our feeling is that the way to deal with this problem is to, first of all, have it relocated in a State. In other words, instead of the Federal Government being a collection agency, having someone in the home State. That would bring it closer to the individual who is responsible for the loan.

Secondly, I think the income contingent—I seem to be harping on it a lot but I think it is the answer—would allow the student who is not making very much money and perhaps finds it even a strain to pay back the present $360 required payment each year for the GSL, he might find that a strain. So, he would be forced essentially into bankruptcy or to default the loan.

I think the income contingency idea encourages him to make payments that are reasonable for him.

Mr. **Rodbell.** You are talking in terms of a watchdog in order to bring down the level of default. By allowing States to match funds with the Government in this area, the State takes a dual responsibility in this collection process that it possibly didn't have before. The student can identify more readily with the pressures of his State than he would from the Federal Government.

Mr. **Andringa.** Thank you, Mr. Chairman.

Mr. **O'Hara.** Our next witness is going to be Mr. Allan Purdy.

Another witness that had been listed was Mr. Jerrold Gibson who is student financial aid officer at Harvard University. Mr. Gibson yesterday advised the subcommittee staff that, although he fully supports H.R. 12523 and will submit a letter to that effect for the record, his primary interest was in broader structural changes in the loan program.

Since we are going to have further hearings to discuss those further issues in the near future, we will hear from Mr. Gibson and from other witnesses who have asked to be heard on those aspects of the program later this spring.

Mr. Purdy is accompanied by Mr. Richard L. Tombaugh, NASFAA, National Association of Student Financial Aid Administrators. And Dr. Norman Beck, director of financial aid for Ball State University, and president of the Midwest Association of Student Financial Aid Administrators.

STATEMENTS OF ALLAN W. PURDY, DIRECTOR OF FINANCIAL AID SERVICES, UNIVERSITY OF MISSOURI, DIRECTOR OF COMMISSION ON STATE AND FEDERAL RELATIONS, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS; DR. NORMAN E. BECK, DIRECTOR OF STUDENT FINANCIAL AID, BALL STATE UNIVERSITY, PRESIDENT OF THE MIDWEST ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS; AND RICHARD L. TOMBAUGH, EXECUTIVE SECRETARY, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. O'Hara. Gentlemen you are welcome. We are looking forward to hearing from you.

Mr. Purdy. The National Association of Student Financial Aid Administrators is pleased to have this opportunity to appear before you and provide our comments on H.R. 12523 and a related Senate bill concerning the guaranteed student loan program.

I am Allan W. Purdy, director of financial aid services at the University of Missouri, and director of NASFAA's Commission on State and Federal Relations.

I am accompanied by Dr. Norman E. Beck, director of student financial aid at Ball State University, president of the Midwest Association of Student Financial Aid Administrators. and Richard L. Tombaugh, NASFAA executive secretary.

We hope that our observations will be helpful to the subcommittee in its deliberations.

The financial aid community has long favored the restriction of Federal subsidy in all forms of student assistance to those who can demonstrate financial need for such aid to attend post secondary education.

We have previously testified to that effect on several occasions, including the hearings just prior to the passage of the education amendments of 1972.

Our philosophical position on this matter has not changed, but a number of practical considerations have evolved to cause us to reevaluate the applicability of the traditional need concept to the guaranteed student loan program at this time.

First, there is strong evidence to suggest that some of the assumptions which form the foundation of traditional need analysis may not be as valid for middle-income families normally served by the guaranteed student loan program as for lower- and lower-middle-income families who seek assistance through other forms of aid "targeted" to financially disadvantaged students.

Until such time as these factors can be further evaluated, the reasonableness of outcomes from need analysis for incomes above the national average should perhaps be viewed with caution.

Secondly, the implementation of the needs test for interest subsidy eligibility subjected the program to severe logistical problems. The volume of applications requiring individual analysis by financial aid officers taxed the staff resources of institutions beyond their ability to respond in a timely fashion, bringing about large backlogs of unprocessed requests for loan assistance. While these delays have eventually been overcome to a great extent, they have meant that many students were without loan funds when needed to pay bills.

Without any sort of administrative cost allowance, institutions have been unable to provide sufficient staffing to accomplish the required analysis, and the processing delays are likely to be repeated again next year unless something is done.

Perhaps the most significant practical consideration, however, is the fact that students not showing "need," and thus not qualifying for interest subsidy, are almost uniformly being denied access to the program altogether.

This was certainly not the intent of the Congress in enacting the need test for subsidy benefits, but it has been the net result because of lender disinterest in making unsubsidized loans.

Unfortunately, the process of need analysis and the financial aid officer have been made something of a scapegoat in this unintended restriction from the program.

We would support the concept that middle-income families often require assistance with cash-flow problems even though need in the traditional sense cannot be demonstrated. The guaranteed loan program served this purpose prior to the implementation of the need test, but failed to do so during the current school year because of the unavailability of unsubsidized loans.

If this purpose is to be served, it seems necessary to expand eligibility for the interest subsidy, at least until some other incentive to greater availability of unsubsidized loans can be devised.

If the current program is not working well, what, then, would we suggest?

It seems to us that it is probably too late to begin any major overhaul of the program and have the changes implemented in time for the 1974–75 academic year, which is not that far away. Thus, the use of a prescribed income level below which need for a guaranteed loan is presumed seems to be the most effective way to circumvent the practical problems we now encounter. The precise income level that is most appropriate for that purpose is less easily defined.

An informal survey was conducted last week to ascertain the current thinking among practicing financial aid administrators regarding the guaranteed loan program.

As late as last October, approximately 600 members of the Midwest Association of Student Financial Aid Administrators defeated a resolution calling for the elimination of a needs test for interest benefits among students whose family income was below $15,000 and who were borrowing $1,500 or less. At that time, the aid administrators sought an intensive study of the current program by USOE and Congress to determine what changes were required to make the program more responsive to the true financial needs of the middle-income families while at the same time restricting any unwarranted drain on the Federal Treasury.

Now, some 4 months later, the aid-community has had the opportunity to review and evaluate the effects of the application of the means test upon the students at their institutions. Futrhermore, they are entering into the beginning of a new awarding cycle without the benefit of the study and research they had advocated.

The survey last week showed that aid officers now recognize the need for immediate relief as called for in the Senate amendment and Mr. O'Hara's proposal if the financial needs of students during the 1974–75 academic year are to be met. Those surveyed still maintain, however, that the problems inherent in the current program call for longer-range study and evaluation since many of the program's deficiencies are not even addressed by the proposed amendments.

As between the two proposals for an interim solution to the immediate situation, that is, assumed need under an adjusted gross income of $15,000 or $20,000, the response was mixed. Most public institutions whose student budgets fell below $2,500 felt comfortable with limiting assumed need to students with family adjusted gross incomes below $15,000. Many private institutions with published student budgets approaching or surpassing $5,000 supported the O'Hara proposal in order to meet the needs of their clientele.

Many related concerns were also expressed:

Would changes in the insured loan program endanger the funding of the SEOG and NDSL programs which are required to fulfill the needs of families below the national average?

In addressing themselves to the various proposals, the aid officers pointed out that the size of the family income employed to determine assumed need and the size of the loan granted to those with assumed need were really two separate issues. One deals with ability to pay and the other with costs, primarily the costs to the institution.

The applications for a loan by independent students represented another area of concern. While an assumed need for an adjusted gross income below $15,000 or $20,000 might be appropriate for the family of a dependent student, does this same logic hold for a single, independent student or a young married couple?

Other anxieties expressed centered on the effects of the proposed changes on delinquency rates, on the basic assumption of parental responsibility to pay, and on the trend of ever-increasing tuition rates.

Finally, the aid administrators ask that any changes in the guaranteed loan program be made to coincide with the beginning of an academic year rather than upon a specific calendar date. If a single day were chosen on which to implement any of the proposed amendments, students applying for aid under the same program for the same academic year would be treated differently on a very arbitrary basis.

We would not want to imply that all of the problems of insured loans have been brought about by the requirement of a financial need calculation process. And certainly the removal of this requirement below some reasonable adjusted family income level is not going to solve all of the difficulties.

This country has a long history of putting together programs to help solve our social problems. Characteristically, we pass a law on the Federal or State level, or both, which we think will work. After we try it a while, we see its good points and its faults. Then we change it with the hope that we are making an improvement. Sometimes, as in this case, things don't work out as we had expected and we need to change again.

We feel that the amendments which are being discussed today are only part of the program improvements which need to be made. Therefore, we repeat the suggestion that we made before this committee on July 26, 1973, that we make some changes now and that we review the whole program for long-range improvements.

We do not now have a readymade blueprint for remodeling insured loans. But we are ready to sit down with spokesmen from Congress, the administration, lenders, guarantee agencies, students, parents, and others to start working on suggestions. To this end, NASFAA has scheduled a symposium on March 1 to begin such a discussion.

The question is often asked as to whether the money spent here could better be spent on other programs directed specifically to the lower-income students. The major part of our financial aid spending is now reaching the lower-income families. Some spending can logically be done to benefit the middle income and the lower middle income.

Investments in both groups are paying good dividends. Proper counseling of young borrowers both by the lender and by the institutional aid officer will help to reduce the default rate.

Our goal is to help each individual develop to the best of his or her abilities by providing postsecondary opportunities at all levels in vocational, trade, and technical schools as well as in colleges and universities.

This complete set of opportunities has never been offered before and we can't expect to provide them without a price commensurate with the magnitude of the goal. But if we can assist our people—young, middle-aged, or past middle-age—to upgrade their individual contributions to society and become taxpaying citizens, then our financial aid efforts will be one of our best national investments.

The financial aid community stands ready to assist in every way possible.

Again, Mr. Chairman, and all of the members of the committee, we express to you our thanks for your sincere concern and your careful consideration.

We will be pleased to discuss further those questions to which all of us are seeking the best possible answers.

Mr. O'HARA. Thank you very much, Mr. Purdy.

The chair wishes to express his appreciation to you and to the association for the very clear understanding you demonstrate of the difference between making an immediate change to try to get some volume in the program as a matter of urgent consideration now, and the broader review of this program and the other student assistance programs at the earliest opportunity which will certainly be prior to the beginning of the summer. We hope we will complete such a review and recommend legislation.

One of the reasons given for making the change in the 1972 amendments to require a needs analysis for many prospective borrowers, who formerly did not need to submit any needs analysis, was that there had been some abuse of the guaranteed student loan program.

There are those who are concerned now that if we adopted the Senate amendment or the proposal I have advanced along with some of my colleagues on the committee that we would see an increase in the abuse of the program and that there would be rather extensive abuse of the guaranteed student loan program in the sense that students who did not need the money for college would borrow the money anyway because it was available on an advantageous term and would use that money or other moneys available to them for the purchase of consumer durables not associated with their education at all. I was going to say an automobile but nowadays they might be purchasing a 10-speed bicycle.

I was wondering if you could direct yourselves to that problem?

Mr. PURDY. Mr. Chairman, I realize the hazard of consumer durables on nomadic types. The current law does require that all student aid, including this, be used for educational expenses. There has to be a notarization to that effect.

Now, that, in itself, is not a complete assurance that there is not going to be some abuse.

In 1967, I believe it was, when the $15,000 figure was projected, I, personally and vocally, said I thought it was too high because I did think that there was maybe too much leeway between the needs of a lot of students and the $15,000 adjusted range. Now, we have had 6½ years of inflation since then. We have had tuition costs and increases in other college costs to where a reasonable adjusted income is not that far above where real need is actually found.

I am not saying that there are not still circumstances where there would be room for abuse but every aid program, welfare and otherwise, has some area in which the operator can abuse the program.

Now, whether or not, and to what extent, this program is abused is going to depend on the combined effort of the institution, the aid officer, the lenders, USOE, and others who administer this program, and also by the atmosphere that is generated as to the persistence with which collections will be pursued.

Some of the abuse that took place also was generated back in an era when there was a little bit of an atmosphere of students ripping off the establishment, as it were. I think that atmosphere has improved a great deal in the last 2 or 3 years. I think we have a more realistic group of students.

Therefore, I would not be afraid of the amount of abuse that would come about.

I would ask either of my colleagues to make a statement as they see it.

Mr. TOMBAUGH. I share [illegible] Purdy's evaluation of the situation with respect to the dependent students where the income that is being considered is that of parents.

I do have some reservations about utilizing the same criteria for eligibility on the interest subsidy with respect to independent students with a $20,000 income or a $15,000 income, which provides considerable leeway for either a single independent student or a young married couple who have income in excess of any reasonable cost to attend the institution. Having access to a subsidized guaranteed loan provides funds that can be used for other purposes.

It is awfully hard to sort out educational expenses and noneducational expenses in the budget of an independent student or a young couple. Perhaps different criteria for these people might be more appropriate, and I think this is an area where the abuse is more likely to occur than in the case of a dependent student with simply an educational budget to deal with.

Mr. O'Hara. I think that point is an excellent point.

Of course when people talk about either the Senate amendment or the provision I have introduced, we are thinking in terms of traditional family income situation. Quite obviously, if a student couple have income approaching $15,000 or $20,000, they ought not to be eligible for assistance, it seems to me.

Mr. Tombaugh. I just think, for illustration, of an interview I did last summer after the Senate hearings on this same topic, where a young man who was a veteran came into my office to protest the failure to find need in his guaranteed loan application because he had borrowed under the program the year before. By his own figures, he had $10,000 of income between him and his wife and his GI bill and $7,000 of expense, or a net profit for the year of $3,000. Yet, he could not understand why we would not certify him for a $2,500 loan because he wanted to consolidate all of his current bills and pay all of his tuition for the year at one time.

This is the kind of unnecessary borrowing that I am concerned about with respect to independent students.

Mr. O'Hara. I thought I would call to the attention of the subcommittee the words at the top of the form used for a student loan application. This is a supplement to the student loan application:

> **Warning. Any person who knowingly makes a false statement of misrepresentation on this form shall be subject to a fine of not more than $10,000 or to imprisonment of not more than 5 years, or both, under provisions of the U.S. Criminal Code.**

One of the statements they are asked to affirm, in addition to statements with respect to adjust family income, is this:

> **I affirm that my loan proceeds obtained as a result of this application will be used solely for expenses related to attendance at the educational institution named on the attached application.**

It seems to me that that is a pretty good deterrent against false application or use of these funds for some purpose other than the direct cost of education.

Mr. Purdy?

Mr. Purdy. There are two things that were in the original law, both of which I felt personally almost invited abuse.

One was the statement and the directive to the lender that in his dealing with the borrower the absence of need could not be used as a reason for refusing the loan.

Now, that is perhaps contrary to good common sense, certainly contrary to good lender-borrower relationships.

But that was in written directives.

Now, I think that invited abuse.

Now, the other thing was that we as financial aid people were directed that we could only do one thing on the original form, and that was to certify full-time attendance. We were practically forbidden to talk with the lender or to express an opinion or a judgment, and I think this is wrong. But if we did talk to a lender, we broke the rule in so doing.

I think both of those invited abuse or permitted abuse.

I think neither of those things should be a part of our operation.

Mr. O'HARA. I agree completely.

One of the things I would like to look into in terms of the abuses is what, if anything, the Justice Department has done to enforce the law with respect to false affidavits.

In the case of those abuses that have been brought to the attention of the Congress, we could use them as examples.

It seems to me that if there is abuse of this law, there is very serious question whether the Justice Department has been diligent in enforcing the law. If there were a few enforcement actions against flagrant abuses, I think it would be a discouraging tactic.

Then, of course, we have an additional provision that used to be in the law going a little bit further and requiring the student to return any assistance that he might have obtained if he has withdrawn from school, or whatever. That also, I think, is something we might consider.

Mr. Andringa, do you have some questions?

Mr. ANDRINGA. Thank you, Mr. Chairman.

Picking up on that point, it is not true that the independent student, using the example you used, could honestly be within the law and his affidavit if he used the proceeds of the loan to pay his tuition and books and fees and he used another $1,000 of assets for other purposes. Is that not true?

Mr. TOMBAUGH. That is the shortcoming of the provision as it now stands, that you have to keep track of what pocket the money comes out of, and that becomes pretty difficult to do.

Mr. ANDRINGA. So the independent student could get around it easily.

Now, the dependent student, and I am thinking mainly of my own background. All my relatives are going to benefit from this proposed change, Mr. Chairman, but my relatives have been saving up for education as have my parents for a younger brother. Perhaps they have $1,000 or $2,000 set aside for education. Perhaps the student, himself, has worked and has $1,000 or $2,000 set aside.

We are talking hopefully about a literate constituency here and parents who understand something about financing.

Now, would it not be silly for a parent not to encourage a student to keep his money in the bank and the father to say, "I am going to keep my money in the bank. If you can get an interest-free loan for 4 years, go ahead and take it out; meet the requirements of the affidavit; spend it for your education."?

Do you see the point?

In fact, with the certificates of deposit that one can now get here in the Washington area banks, you could invest the amount of the loan in a certificate of deposit and earn $2,000 during 4 years of school, take your money out of the bank, pay off your loan entirely before a penny of interest is paid, and you would be $2,000 to the good.

That is an extreme example.

But the idea of parents simply not putting in the resources that they had planned to and the student not using the resources he had planned to in order to get an interest-free loan—would you not counsel your son or daughter to take advantage of such a deal?

Mr. Purdy. I guess I would have to say that in the area in which I work in Missouri I am surprised how little of that was done even under the old program.

Mr. O'Hara. The Chair would like to learn just how to do that.

How is that again, that I am going to make $2,000?

Mr. Andringa. I will explain it to you after the hearing. It is a good deal.

Mr. O'Hara. Could you give us the assumption?

Mr. Andringa. Yes; the assumption would be that the benefit of the loan—as the application reads—has to be used for educational purposes. So, rather than using your savings account or selling some stock, or your son or daughter spending what he has saved in the way of savings bonds or savings account, rather than using any of that for 4 years, keep it invested and earn interest on it, and get an interest-free loan to carry you through 4 years and then pay it off before interest charges start accruing.

Mr. O'Hara. The year my son is a freshman I would borrow $2,000 on the first of September and the first of September the next year—I mean, I would buy a certificate of deposit worth $2,000 and borrow $2,000 the first of September each year for 4 years?

Mr. Andringa. Assuming you had $2,000 now in the savings account.

Mr. O'Hara. You would have me do it at that rate, $2,000 a year, making a $2,000 loan each year?

Mr. Andringa. $2,500.

Mr. O'Hara. You would have to show need under these bills to get $2,500?

Mr. Andringa. Not under the Senate amendment.

Mr. O'Hara. I thought the Senate amendment was 15-15.

Mr. Andringa. No: 15-25.

So, earning at a rate of 7½ per cent on a certificate of deposit, you could earn that much on your own resources.

Mr. O'Hara. Would you have to buy a $10,000 CD the first year?

Mr. Andringa. A 4-year CD for $2,500 the first year; a 3-year CD the second year; a 2-year CD the third year; a 1-year CD the fourth year; cash it in before the lender asked you to repay the loan and you would have $2,000 in addition to the principal on the loan.

I am not suggesting that is going to be done. I would like to do it.

I would like your response to that kind of opportunity.

Mr. Beck. There are two points, I think, one being that the people who generally borrow do not have the liquid assets available that they could, in fact, make the contribution.

While my institution may be atypical, the studies we have done internally would indicate this is not the case. It would be the exception that would do this.

Secondly, we are making another assumption that there is no need over and above whatever the amount of the guaranteed loan is. In those cases where the need is in excess of $1,500 or $2,000, a needs test for other types of aid will, in fact, be used and we would be tapping those resources at that point.

So, you have a particular indvidual who has in your case the liquid assets and does not have any need greater than the amount of the loan. But it could happen. But I am not sure that the incidence is high enough that it would cause me great concern.

Mr. Andringa. Under the chairman's bill, gross income would be roughly $26,000 for a family with three children and you are suggesting that the children or the family would probably not have anything set aside for education?

Mr. Beck. I am suggesting in many cases you are looking at a two-child family, and I am suggesting that the incidence of borrowing at this point anyway, at my institution, among people of that income level with two children has not been great at all.

Mr. Purdy. Let me add one further thing. Now you are looking at the father of four children and an income level between $20,000 and $22,000. I am not atypical, I don't think. I use my illustration because I know it better than anybody else's.

The amount of money that has been set aside for college, I just have to say, has been pretty small. What the children have, and they are working children, has been that which is available from their previous summer's income.

Now, one other factor, one other person you would have to get to go along with this deal, and that is the lender, and most lenders, and I would say this is pretty uniform, would not be a party to that kind of deal if they realized it was going on, and most lenders are fairly astute in this area.

They are openly aware of the fact that this is a program that they are in for the common good. It is not one of their most popular consumer loan programs. They are willing to do it to help out. I don't know of any lenders who are willing to do it to rip-off Uncle Sam.

Mr. Andringa. To be fair with you, I would note for the record that about 20 States have a $1,500 ceiling, and if we were to adopt the Senate amendment, presumably those States would still keep a lower ceiling anyway.

Now, on this provision of law which you said used to work to prohibit the lender from considering need. If we were to adopt this amendment, is it your understanding then that the lender again would not be able to look at need and, if that is so, should the law be changed in that respect?

Mr. PURDY. The inference I was intending there is that it prohibited the lender from using what would normally be his common judgment and good sense in his work with the potential borrower. It cut a relationship there which he would normally adhere to. I would expect that with there being no written directive to the contrary that again the lenders would be happy to proceed on the basis of working with a borrower, trying to assist that borrower in doing the wise thing.

Mr. ANDRINGA. Would the law prevent that?

Mr. PURDY. Not now, but it used to. At least the USOE interpretation of the law prevented it.

Mr. ANDRINGA. One limit on the loan would be the fact that a student cannot borrow more than the difference between the total budget and his other resources. Could we look at those two factors a minute; the total budget. How many budgets do you have at your university?

Mr. PURDY. We would start with the basic budget of the single dependent student living in the dormitory.

Mr. ANDRINGA. Do you have 10 or do you have 15?

Mr. PURDY. In general, maybe four. Now, there are variations on those. When we talk to a given student who is living in the dormitory or a given student in his community, it makes a difference whether you are commuting five blocks or 15 miles. You have to work with the individual case.

Mr. ANDRINGA. Mr. Chairman, I will be glad to yield to Mr. Biaggi. I do have some more questions.

Mr. BIAGGI. Go ahead.

Mr. ANDRINGA. So it is likely that a student needs to be in touch with the school before the school could process the loan.

Let us assume for a minute the Senate amendment or Mr. O'Hara's bill gets adopted. The student would most likely have to be in touch with the school so that the school would know what to fill in the way of a budget, is that correct?

Mr. TOMBAUGH. The application would have to provide sufficient information to know what the student's circumstances were.

Mr. ANDRINGA. In terms of a budget of a young independent student, let us assume he is a married student—do you have any figures on what the range of budgets for independent students would be now at various types of institutions or a rough idea of how many students are now independent in a way that we define independence?

Mr. TOMBAUGH. I would just make an estimate that it ranges anywhere from 25 to 60 percent, depending on the type of institution.

Mr. ANDRINGA. So, in some institutions the majority of students might be independent, and for them then you would have to have a budget that includes life insurance premiums, medical insurance premiums, car payments, mortgage payments if they happen to be buying a home, certainly rent. In other words, you would have to look at their actual outlay regardless of what some needs analysis service thought was appropriate, would you not?

Mr. TOMBAUGH. That is right.

Mr. ANDRINGA. Is it likely then that all independent students ranging from 25 to 60 percent of the student body would qualify automatically for no-interest loans?

Do you have any idea how many states have state laws that allow 18-year-olds to declare themselves independent and are legally able to enter into contracts?

Mr. **Purdy.** I am just reminded that the figures show that there are 42 States who have some type of an 18-year-old majority law. I think it is quite variable as to what the 18-year-old might be able to do within that particular State.

For example, in Missouri we have it; in other words, they are indeed responsible for the notes that they sign for educational costs. They still don't have certain what they call privileges, buying liquor and other things, but they can sign a note.

Mr. **Andringa.** The law is changing rapidly. For instance, just a guess, but maybe half of those 42 States have enacted legislation in the last year, after the 26th amendment.

Now is it possible that between now and the effective date for changes in all these student aid programs that we would hope to have before the summer of 1975, is it possible that our present understanding of an independent student, where you have to live away from home for a year and all this kind of business, may be thrown out of the window and we may not be able to hang onto that?

Mr. **Purdy.** I think you could answer that as well as we could as to what the courts might do. Currently we are living with the world as it is and not what might be because we don't know that. I would say that most financial aid people have been very reluctant to let an under-21-year-old student declare himself as an independent as long as both parents were living and living together.

Mr. **Andringa.** But some schools may be behind the times even legally if not in terms of what actually happens among students today.

Mr. **Purdy.** I agree.

Mr. **Beck.** I think what has happened is that rather than schools leaning towards 18 as a measure of independence, it has been quite the reverse. That is, where schools previously would have said a person who has graduated and has an undergraduate degree going into graduate school was automatically considered independent at one period of time, this is now clouded over so that dichotomy no longer exists, so I think it has worked in the other direction.

Mr. **Andringa.** A couple quick ones. I have gotten the signal.

You have suggested changes be made at the beginning of an academic year. Could you be more specific? It is our understanding that the loan volume begins to pick up in June. Right now is an ideal time. To wait until September is a mistake.

Mr. **Purdy.** All we are saying is that a change should not affect a loan that is going to be made yet this semester or even maybe for this summer session, but changes which may affect the processing of loans that would be for the 1974–75 academic year, we think that would be simpler for the lender.

Mr. **Andringa.** Your workload is in the summer, is it not, July and August?

Mr. TOMBAUGH. The thing we would like to see done here is that all loans or all applications which are being requested for the academic year beginning after July 1 would be treated in the same fashion, regardless of when they had to be processed at the school, so that a late application for the current year would not be adjusted differently than an early application in this year and an early application for next year would not be subject to this year's regulations as opposed to the new ones, whatever they might be.

Mr. ANDRINGA. Finally, the minority members, are interested in trying to look at two general areas: one, to strengthen the State program, the State guarantee agency, and to bring some equity between the incentives for going with a State guarantee versus a direct Federal guarantee; and, two, they are interested in the idea of going to a totally nonsubsidized program so that we would do away with the needs test entirely for all students.

It is our understanding that if we were to accept Mr. O'Hara's bill or the Senate bill, we could use the existing forms with the addition of one mimeograph flier. I was told yesterday it takes up to 150 days for the Federal Government to produce 10 million new forms. So that is something we have to think about, in light of the paper shortage.

Also, it is our understanding that if we were to go to a totally nonsubsidized program, the existing forms and the existing procedures and the existing guidelines and regulations would also work, that either of those adjustments is not a major new direction that would be difficult to explain and gain understanding on.

If you could respond to that, the impact of either of the two suggested changes, in terms of the mechanics and timing, we would appreciate it.

Mr. PURDY. All right.

Mr. O'HARA. We might even save paper by not requiring a needs analysis.

Mr. PURDY. A good deal of it.

Mr. ANDRINGA. Perhaps not $225 million worth.

Mr. O'HARA. Thank you very much, gentlemen, for your testimony.

As you might anticipate, we will certainly be back in touch with you as the hearings continue, to gain the benefit of your experience with this program to help guide us in our deliberations. Thank you very much.

Mr. PURDY. Thank you, Mr. Chairman.

Mr. O'HARA. Our last witnesses of this morning will be Dr. Raymond Murphy, vice president for student affairs at Pennsylvania State University, and John F. Brugel, director of the Office of Student Aid, Pennsylvania State University.

They will be appearing today on behalf of the National Association of State Universities and Land-Grant Colleges, the Association of American Universities, the American Association of State Colleges and Universities, and the American Association of Community and Junior Colleges.

Gentlemen, we are very anxious to hear what you have to say.

STATEMENTS OF RAYMOND O. MURPHY, VICE PRESIDENT FOR STUDENT AFFAIRS, AND JOHN F. BRUGEL, DIRECTOR OF OFFICE OF STUDENT AIDS, PENNSYLVANIA STATE UNIVERSITY, APPEARING ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES, AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES, THE AMERICAN ASSOCIATION OF UNIVERSITIES, AND THE AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES

Mr. MURPHY. Mr. Chairman, good morning.

I am Raymond Murphy, vice president for student affairs, Pennsylvania State University. We appreciate the opportunity to appear before this committee today, knowing that we share a common bond of concern for the young people of our Nation, particularly college students.

The Pennsylvania State University is the land-grant institution of the State of Pennsylvania, with its main campus at University Park, Pa., and has 21 branch locations throughout the State.

Current enrollment is 49,000 students, including the 1973 Heismann Trophy winner, John Capallettj. The greatest portion of the students of the Penn State University come from family backgrounds of middle and lower income levels with the latter particularly prevalent at our 2-year branch campuses.

Students of our institution have become increasingly reliant on Federal student aid programs as well as those of the Pennsylvania higher education assistance agency.

With the introduction of the needs analysis requirement as part of the procedure for obtaining State guaranteed loans we have witnessed a serious decline in the number of students eligible for interest subsidized loans.

Corresponding increases have been noted in the numbers of complaints reaching both my office and those of our president. Badly needed funds have had to be diverted to an institutional loan fund so modest as to meet only the severest of the cases rejected for the traditional guaranteed loans.

Additional administrative costs have had to be absorbed by the university to produce an ever-declining yield for our students.

I am pleased at this time to present Mr. John Brugel, our director of student aid, who will furnish you with greater insight into the problems associated with this particular program and the impact it is having on our students.

Mr BRUGEL. Thank you, Dr. Murphy.

Mr. Chairman, I have a prepared text, but I will not follow that. I would rather just highlight the major points which are contained in the text.

Mr. O'HARA. Before you proceed, the Chair will ask unanimous consent that the full text of the statement submitted will appear in the record immediately before your oral testimony.

Mr. BRUGEL. Thank you.

Mr. O'HARA. Without objection, it is so ordered.

[The statement referred to follows:]

STATEMENT BY JOHN F. BRUGEL, DIRECTOR, OFFICE OF STUDENT AID, PENNSYLVANIA STATE UNIVERSITY, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES, ASSOCIATION OF AMERICAN UNIVERSITIES, AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES, AND AMERICAN ASSOCIATION OF COMMUNITY AND JUNIOR COLLEGES

The growth of the Guaranteed Loan Program (GLP) and its increasing importance as a source of financing educational costs is well documented. Although beset by uneven administration and intermittent restrictions caused by tight money, the program grew from less than fifty thousand (48,495) borrowers during the fiscal year 1966 to over a million (1,256,299) borrowers during the fiscal year 1972. The aid available under this program exceeded a billion dollars ($1,301,576,723) in fiscal year 1972. Program activity has declined during the ensuing fiscal years. This decline is attributable to the program amendments introduced by The Higher Education Amendments of 1972 (P.L. 92–318).

The introduction of "need" (determined by formal need analysis) as a primary condition of eligibility for an interest subsidized loan has effectively original guidelines. Both educational and lending institutions have been eliminated many middle income borrowers previously eligible under the given the "flexibility" to "over-ride" need analysis findings. However, this factor probably introduces as many inequities as it eliminates. Some students and their families recieve special consideration while others do not. The operational guidelines for exceptional decisions have been vague and the quality of decisions uneven.

Institutions managing large programs will, most typically, have neither the time nor staff resources available to systematically consider each case for exceptional treatment. I feel that this generalization holds for both educational and lending institutions involved with large programs. Those receiving special consideration will, for the most part, be those who are most vocal and persistent. The less vocal, less aggressive families will, in many cases, be overlooked.

The Pennsylvania State University Guaranteed Student Loan (GSL) activity has paralleled the national trend. Program activity, as measured by dollars available to students, has declined steeply. Currently, fiscal year 1974 activity projections indicate a thirty to forty percent decline over fiscal year 1972 activity. The Pennsylvania State University Office of Student Aid has increased computer capabilities and added staff in an effort to cope with the revised guidelines. Although current administrative costs exceed $50,000, and the work load has increased substantially, the yield of loan assistance to students has decreased sharply.

Currently, the GSL program is administered centrally for twenty campuses of the University. Thus, the problem of personalizing the treatment of exceptional cases is a geographical as well as staff resource problem. Nevertheless, in an effort to introduce flexibility into the GSL, the Office of Student Aid initiated an appeal procedure with the change-over to the new guidelines. The applicant receives a letter which states the recommended loan amount and suggests steps which may be followed if the decision is unacceptable. The appeal procedure allows for the consideration of exceptional circumstances such as income reduction, change in circumstances after submission of financial data, and reduced expectation due to non-liquid assets. This procedure provides relief in some cases but frequently does not sufficiently change the recommended loan amount to provide what the family feels is necessary. All too often, the appeal is an emotional outcry rather than a quantitative demonstration of need. The GSL does provide codes which may be used to increase the recommended loan amount. One code—"cannot meet expected contribution from income" is probably the most appropriate response for most middle income families. However, the use of this code for most appeals vitiates the concept of need analysis. Institutions were initially cautioned about their accountability for exceptional decisions. This code was to be employed with great selectivity as a "disproportionate" use might suggest the need for federal audit activity. Later, institutions were "reassured" that if "reasonable documentation" existed they need not fear audit exceptions. Frankly, my experience to date indicates that what I consider reasonable may not be in agreement with what an auditor considers reasonable. Thus, a program administered "loosely," while benefiting the student, exposes the institution to some degree of liability relative to the personal interpretation of such elusive factors as need, exceptional circumstances, and reasonable documentation. A program administered "tightly" throws all the responsibility for flexibility on the lending institution.

The major point is that flexibility is unevenly administered and places an inordinate responsibility and burden on both the colleges and the lending institutions. Given identical circumstances, some schools and banks will recommend a subsidized loan while others will not.

NEED ANALYSIS

Formal need analysis has not proven to have the ability to reasonably determine the higher education purchasing power of many middle income families. The expected parental contribution derived from need analysis ignores the drain placed on families for such items as credit purchases, home improvements, and mortgage payments. The contribution expected from current income often exceeds 20% of after taxes income (see attached cases 1–6 which received "0" recommendations for guaranteed loans). Middle income families are frequently indebted due to credit purchases. The necessary monthly payments considerably reduce the actual discretionary income available to meet college costs.

The attached study by Brugel and Hofmann indicates the substantial impact need analysis has had on the eligibility of middle income families applying for a subsidized GSL. Briefly, one out of four applicants who previously were eligible for a $1,500 subsidized loan were totally ineligible for the interest subsidy benefit. Others were found to be eligible for only a small portion of the maximum (see Graph I, page 18). The non-subsidized loans have in many instances not been an attractive investment for the lending institutions and consequently, families have been in a position where they cannot afford to meet educational costs out of current income and are unable to borrow.

RECOMMENDATIONS

1. *Remove the need analysis requirement.*—The need analysis requirement should be amended as follows:
    A. Establish a $1,500 loan/$15,000 adjusted income or $2,000/$20,000 breakpoint where eligibility for a subsidized loan is not dependent upon need analysis findings. Provide the opportunity for families with adjusted incomes above this point to submit to need analysis to determine eligibility.
2. *Require an affidavit of educational intent.*—An affidavit affirming the use of loan proceeds for educational costs will reduce the potential for loan abuses.
3. *Loan maximum net other aid.*—Require that the amount of the subsidized loan not exceed cost of attendance net other aid committed to the student.
4. *Nonsubsidized loans.*—Students found to be ineligible for a subsidized loan under the above guidelines should be permitted to borrow on a non-subsidized basis.
5. *Immediate action is necessary.*

Case No. 1: Miss N. B.—applying for GSL for junior year of study—has had two previous subsidized guaranteed loans.

1. Father: Age 48, social worker.
   Mother: Age 47, housewife.
   Family has two children, both in college (SUNY, PSU).

2.	Income	$16, 820
	Taxes	2, 570
	Total	14, 250
	GSL adjusted income—$12,138.	
3.	Residence Equity	9. 200
	Bank account	2, 100
	Total assets	11, 300
	Income supplement—$495.	
4.	Parents contribution (total of $4,330 for both children)	2, 165
	Student contribution	500
	Student resource	625
	Total	3, 290

5. Expected parents contribution equals 30% of after taxes income.
6. "0" GSL Recommendation.

Case No. 2: Mr. M. B.—applying for GSL for junior year—has had two previous subsidized guaranteed loans.

1. Father: Age 49, factory worker.	
Mother: Age 47, department store employee.	
Family has three children, 1 in college.	
2. Father's income	$11, 740
Mother's income	7, 800
Total income	19, 540
Taxes	[1]—540
Total	19, 000
GSL adjusted income—$12,138.	
3. Residence equity	18, 450
Bank account	400
Total	18, 850
Income supplement—$1,303.	
4. Parents contribution	5, 508
Student contribution	600
Family contribution	6, 108

5. Expected parents contribution equals 29 percent of after taxes income.
6. "0" GSL Recommendation.

[1] Probably a substantial under estimation of taxes.

Case No. 3: Mr. W. O.—applying for GSL for junior year—has had two previous subsidized guaranteed loans.

1. Father: Age 47, telephone repairman.	
Mother: Age 47, housewife.	
Family has two children, 1 in college.	
2. Income	$16, 580
Taxes	2, 245
Total	14, 335
GSL adjusted income—$11,922.	
3. Residence equity	11, 000
Bank account	500
Company stock	1, 000
Total	12, 500
Income supplement—$649.	
4. Parents contribution	3, 363
Student contribution	600
Family contribution	3, 963

5. Expected parents contribution equals 23% of after taxes income.
6. "0" GSL Recommendation.

Case No. 4: Miss S. O.—applying for GSL for senior year—previous recipient of 2 subsidized guaranteed loans.

1. Father: Age 53, manager of regional gas utility office.	
Mother: Age 47, housewife.	
2. Income	$17, 640
Taxes	2, 599
Total	15, 041
GSL adjusted income—$13,626.	
3. Residence equity	6, 180
Bank account	400
Total	6, 580
Income supplement—(−$152).	
4. Parents contribution	3, 842
Student contribution	500
Family contribution	4, 342

5. Expected parents contribution equals 26 percent of after taxes income.
6. "0" GSL Recommendation.

Case No. 5: Miss D.B.—applying for GSL for junior year—previous recipient of two subsidized guaranteed loans.

1. Father: Age 64, bank guard.	
Mother: Age 63, "semi-retired".	
Family has one child, the applicant.	
2. Income	$13, 050
Taxes	
Total	13, 050
GSL adjusted income—$9,495.	
3. Residence equity	6, 500
Vacation home	20, 000
Bank account	200
Total	28, 700
Income supplement—$966.	
4. Parents contribution	2, 957
Student contribution	500
Social security	810
Total family contribution	4, 267
5. Expected parents contribution equals 22% of after taxes income.	
6. "0" GSL Recommendation.	

Case No. 6: Mr. J.L.—applying for GSL for senior year—previous recipient of three guaranteed subsidized loans.

1. Father: Age 61, middle management.	
Mother: Age 56, housewife.	
Family has two children, 1 in college.	
2. Income	$14, 150
Taxes	1, 500
Total	12, 650
GSL adjusted income—$9,735.	
3. Residence equity	30, 000
Bank account	500
Total	30, 500
Income supplement—$1,368.	
4. Parents contribution	2, 817
Student contribution	600
Students savings	200
Family contribution	3, 617
5. Expected parents contribution equals 22% of after taxes income.	
6. "0" GSL Recommendation.	

THE REVISED GUARANTEED STUDENT LOAN PROGRAM: AN IMPACT ANALYSIS

The Higher Education Amendments of 1972 (Public Law 92–318) were hailed by many sectors of the higher education community as a legislative landmark. One aspect, student assistance, received unprecedented federal endorsement. The continuation of the "traditional" student assistance programs (Supplemental Educational Opportunity Grant, National Direct Student Loan, College Work-Study Program, and Guaranteed Student Loan) was authorized in addition to the establishment of a basic education entitlement grant (Basic Educational Opportunity Grant). Seemingly, the Federal commitment to higher education was reaffirmed and advanced by this broadly based legislation. It is the intent of the authors to analyze one section of this legislation; the Guaranteed Student Loan Program (GSLP) as it has impacted on the students of one public university.

The Higher Education Act of 1965 established the GSLP to encourage the availability of private capital for educational loans. If the student's adjusted family income was less than $15,000 the program provided that the Federal Government would subsidize the interest on the loan while the student was enrolled. If the student's adjusted family income was above $15,000, the interest was to be assumed by the student. This form of student assistance was generally available and utilized by families who were denied institutional assistance due to insufficient funds or student ineligibility on the basis of a formal need analysis. The program has, since its inception, served as a primary source of funding for middle-income families. The guaranteed loans have been most heavily utilized by students whose gross annual income is above $7,500 whereas the National Direct Student Loans have been primarily utilized by students in the below $7,500 gross annual income category.[1]

When P.L. 92–318 was passed in June, 1972, it appeared that its intent relative to the GSLP was threefold. First, it sought to eliminate some of the reported abuses to the program. In an effort to reduce the incidence of students using the loan for purchases unrelated to their educational needs, an affidavit rquiring the notarized signature of the student borrower is mandated under the new law. The student must affirm that the loan is to be used solely for educational purposes.

Secondly, in an apparent effort to equitably apportion the interest subsidy benefit, the provision limiting this benefit to families with adjusted annual income of less than $15,000 was eliminated. The revision provides that any family, regardless of adjusted income level, may qualify if they show "need" utilizing formal need analysis procedures. It was felt that this revision would extend the interest benefits to those families with adjusted incomes in excess of $15,000 with unusual expenses.

Finally, the use of the need analysis was provided to reduce the flow of federal subsidy previously assigned to families who could, and would in fact finance the education of their offspring exclusive of this subsidy. The federal dollars saved in this manner could then be effectively channeled elswhere to serve other social purposes.

The study

A descriptive study was initiated in an effort to assess the impact of the revised GSLP on the potential student borrower at The Pennsylvania State University. The data were extracted from the GSLP applications received by the Office of Student Aid between February 15, 1973 and June 30, 1973. Only the 1,451 applications which had been completely processed were analyzed. From this population, applications not seeking interest benefits, independent student applications, and applications with incomplete information were eliminated. Thus, the data reported are applicable to a population of 1,000 dependent students seeking GSLP interest benefits.

In examining each of the applications, the investigators sought to determine the following: 1. Adjusted famiy income; 2. Number of dependent children in family; 3. Amount of requested loan; and 4. Amount of recommended loan.

Definitions and limitations of study

Much of this study deals with data reported in terms of adjusted income. This is the income level determined on the Lenders Report OE Form 1070 which had been used under the previous regulations to determine the applicant's eligibility for the interest subsidy. To determine the adjusted income, the gross income is reduced by 10% plus a deduction is allowed equal to the number of dependents multiplied by $750.[2]

The recommended loan amount is the amount of loan eligible for interest subsidy under the new regulations. It is calculated by subtracting expected family support[3] and other resources from the University budgets.[4]

The data have several limitations which should be noted. No control was employed to differentiate findings based on either the effect of other aid committed to the student or utilization of different university budgets. Few students had aid committed to them during the period of this investigation and consequently this factor is considered minimal. The bias introduced by the utilization of different university budgets cannot be estimated.

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[1] Hartman, Robert W. *Credit for College*, Carnegie Commission on Higher Education, New York, McGraw-Hill, 1971, page 144.

[2] Gross Income X–.10X–Y dependents ($750) = adjusted income.

[3] The Pennsylvania State University utilizes the need analysis services provided by the College Scholarship Service (CSS). The data reported by the CSS was employed for all cases examined.

[4] The Pennsylvania State University student budgets for a three-term, nine-month period are as follows: Pennsylvania resident—$2,865, Non-resident—$4,065, and Commuter—$2,379.

Findings

The mean adjusted family income of the GSLP applicants was $9,745. The median income for all applicants was $9,609 with the modal adjusted income category falling in the $8,000–$8,999 range (see Table I). Of the population analyzed, 17% had adjusted incomes of less than $6,000; 75% had adjusted incomes in the $6,000–$15,000 range, and 8% had adjusted incomes above $15,000. Clearly, the data indicate that the heaviest demand for this type of funding falls in the middle-income categories.

The average loan request was $1,382 while the average loan recommendation was $812.50. Thus, following the revised Federal procedures, the applicant population studied received a recommendation equaling 59% of the amount requested. An increase in family size did not in itself have a substantial effect on the recommended loan amount. In general, for the population studied, an increase in family size was associated with an increase in gross income. This finding is reflected in the small differences of adjusted income apparent in Table II. These data appear to indicate that when controlling for family size, loan requests were submitted from families with comparable adjusted income levels.

TABLE I.—AVERAGE LOAN RECOMMENDATION, BY INCOME LEVEL

Adjusted income	Average recommendation	Number	Adjusted income	Average recommendation	Number
0 to $999	$1,011	9	$13,000 to $13,999	$296	67
$1,000 to $1,999	1,580	15	$14,000 to $14,999	273	55
$2,000 to $2,999	1,662	13	$15,000 to $15,999	161	18
$3,000 to $3,999	1,423	35	$16,000 to $16,999	6	16
$4,000 to $4,999	1,302	44	$17,000 to $17,999	162	13
$5,000 to $5,999	1,239	54	$18,000 to $18,999	0	5
$6,000 to $6,999	1,017	58	$19,000 to $19,999	40	8
$7,000 to $7,999	1,025	90	$20,000 to $20,999	350	6
$8,000 to $8,999	886	118	$21,000 to $21,999	0	2
$9,000 to $9,999	781	105	$22,000 to $22,999	0	4
$10,000 to $10,999	821	90	$23,000 to $23,999	600	4
$11,000 to $11,999	571	93	$24,000 to $24,999		
$12,000 to $12,999	286	77	$25,000 to $25,999	0	1

The average recommended loan amount, associated with adjusted income levels is illustrated in Graph I. The clear area under the curve represents the flow of recommended loan dollars under the revised provisions requiring need analysis.[5] The shaded area represents the flow of federally subsidized loan dollars which would have occurred under the original adjusted income regulations.

The data indicate, as one would expect, that the recommended loan amount decreases as the level of adjusted income increases. However, as the shaded area indicates, the reduction in eligibility for interest benefits is most pronounced in the adjusted income categories from $10,000–$15,000. One of the benefits of the revised program is apparent in that some applications from the above $15,000 adjusted income categories did qualify for interest benefits. However, the incidence rate is low.

The recommended loan data when reported as averages mask and are affected by the number of $0 recommendations. These $0 recommendations occur when the resources available to the student and/or family are assumed to be adequate to meet the institutional budget. As is evident in Table III, these $0 recommendations occurred in even the lowest income categories [due to resources available to the student such as Social Security benefits and/or Veterans Benefits].

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[5] It should be noted that the average in the $0-999 income category was biased by one case which received a 0 recommendation (due to other resources such as Social Security and/or Veterans Benefits). This is also true in the $23,000 category where the applicants received a 0 recommendation and one received a recommendation of $2,400 due to extraordinary emergency expenses.

GRAPH 1

AVERAGE LOAN RECOMMENDATION
BY INCOME LEVEL

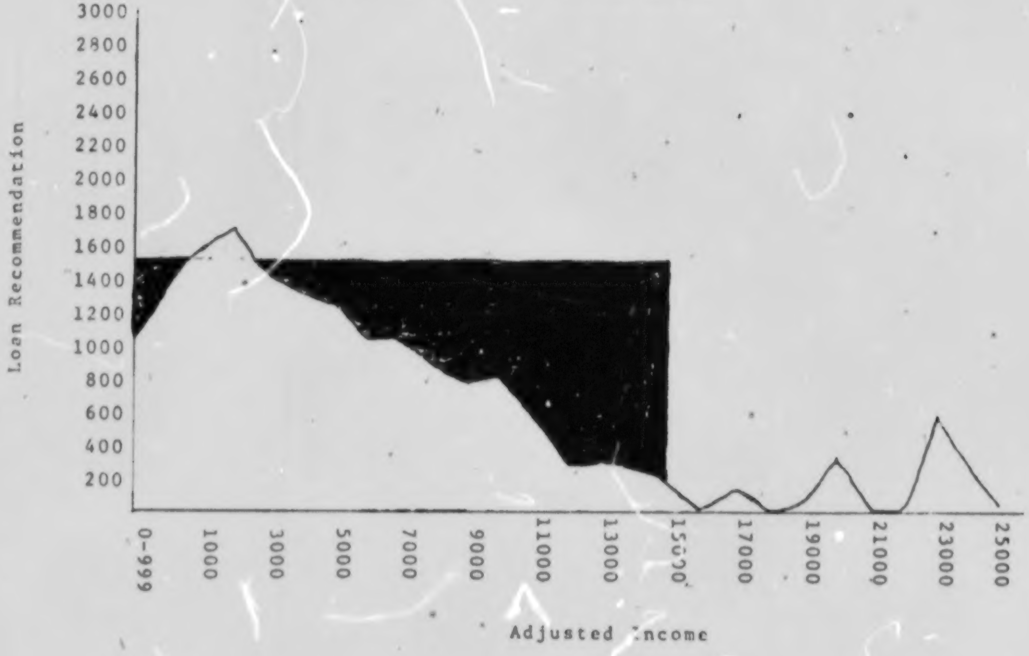


TABLE II

Number	Children	Average adjusted income	Average recom-mendation
227	1	$9,090	$620
311	2	10,130	720
235	3	10,342	774
120	4	9,450	940
72	5	8,972	1,010
35	6	10,486	811

The average adjusted income for this sub-population calculated from the midpoint of the adjusted income classes is $12,880. The median adjusted income for all applicants receiving a "0" recommendation was $12,850 with the mode falling in the $12,000–$12,999 adjusted income class.

The incidence of these $0 recommendations increases as the adjusted income level increases. Of the cases examined, 29.6% received $0 recommendations. Thus, nearly 30% of the population seeking this type of aid are found to be ineligible for interest subsidy benefits. This figure is due primarily to need analysis findings rather than aid committed. Under the previous adjusted income guidelines, 7.7% would have been ineligible for an interest subsidized loan. Of the 77 applicants who would have previously been ineligible for the interest subsidy, 13 (17%) qualified for some degree of interest benefits. However, of the 923 students previously eligible for an interest subsidized loan of up to $1,500 (Pennsylvania maximum for undergraduates) we find that 232 (25.1%) are found to be totally ineligible for interest benefits and the remaining students in many cases receive a loan recommendation which is less than they feel is necessary to meet their educational expenses.

Discussion

Our colleagues, lending institutions, and students have been aware of some of the problems caused by the revised GSLP for some time. However, no one

TABLE III.—RATIO OF NUMBER OF ZERO RECOMMENDATIONS TO THE NUMBER OF APPLICANTS WITHIN INCOME CATEGORIES BY NUMBER OF DEPENDENT CHILDREN IN FAMILY

Adjusted income	Number of children in family						0 recommendation	
	1	2	3	4	5	6	Total	Percent
0 to $999	1:2	0:1	0:2	0:4	0:1	0:0	1:9	11
$1,000 to $1,999	0:6	0:7	0:2	0:0	0:0	0:0	0:15	
$2,000 to $2,999	0:1	0:6	0:4	0:1	0:1	0:0	0:13	
$3,000 to $3,999	0:8	0:7	0:6	0:8	0:4	0:2	0:35	
$4,000 to $4,999	3:18	0:8	2:7	0:5	0:4	0:2	5:44	11
$5,000 to $5,999	6:15	1:12	1:13	0:5	0:8	0:1	8:54	15
$6,000 to $6,999	3:19	0:14	1:13	1:6	1:4	1:2	7:59	12
$7,000 to $7,999	3:12	1:31	3:23	1:18	0:5	0:1	8:90	9
$8,000 to $8,999	3:30	9:41	2:28	1:7	2:8	0:4	17:118	14
$9,000 to $9,999	7:27	3:30	2:22	0:17	1:7	0:2	13:105	12
$10,000 to $10,999	9:21	6:26	5:20	0:9	1:6	1:8	22:90	24
$11,000 to $11,999	10:14	11:33	3:21	2:12	1:11	0:2	27:93	29
$12,000 to $12,999	18:19	14:30	10:17	3:6	2:5	0:0	47:77	61
$13,000 to $13,999	18:19	10:17	10:17	2:6	2:4	1:4	43:67	64
$14,000 to $14,999	7:9	14:18	7:16	3:6	2:2	1:4	34:55	62
$15,000 to $15,999	1:1	8:10	1:2	3:4	0:0	0:1	13:18	72
$15,000 to $16,999	3:3	7:8	4:4	0:0	1:1	0:0	15:16	94
$17,000 to $17,999	0:0	4:5	4:5	1:2	1:1	0:0	10:13	77
$18,000 to $18,999	0:0	2:2	2:2	1:1	0:0	0:0	5:5	100
$19,000 to $19,999	1:1	0:0	6:7	0:0	0:0	0:0	7:8	88
$20,000 to $20,999	0:0	1:1	2:4	1:1	0:0	0:0	4:6	66
$21,000 to $21,999	1:1	1:1	0:0	0:0	0:0	0:0	2:2	100
$22,000 to $22,999	1:1	1:1	0:0	2:2	0:0	0:0	4:4	100
$23,000 to $23,999	0:0	2:2	0:1	0:0	0:0	1:1	3:4	75
$24,000 to $24,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	
$25,000 to $25,999	0:0	0:0	0:0	0:0	0:0	1:1	1:1	100
$26,000 to $26,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	
$27,000 to $27,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	
$28,000 to $28,999	0:0	0:0	0:0	0:0	0:0	0:0	0:0	

seems to be addressing how these revisions contrast philosophically rather than operationaly with the original legislation. The Higher Education Act of 1965 which established the GSLP sought to encourage higher education "consumption" through the provision of a subsidy for middle-income families. The higher education consumer acceptance of this concept of post-financing is well illustrated by the growth curve of the GSLP. The dollar volume has increased from 77 million in 1966 to its pre-revision level of over 1 billion dollars. The degree of annual federal support required to maintain the GSLP has grown to exceed 300 million dollars in a nine year period.

The findings of this study suggest that the GSLP, as revised, substantially withdraws the federal subsidy previously available to middle-income families. The law does provide "flexibility" in making recommendations and further provides that the bank may override recommendations or grant loan dollars on an unsubsidized basis. However, the experience of educational and lending institutions with these provisions has been less than satisfactory. In spite of the well meaning intentions of a number of people, a great deal of confusion still exists with regard to making this program work effectively. Many lending institutions are reluctant to override the institutional recommendations or to grant a non-subsidized loan. For their part, many educational institutions are reluctant to exercise their "flexibility" by overriding the need analysis findings.

Aside from the substantial operational difficulties of this program, a serious question must be raised relative to the degree of federal commitment to the support of the educational endeavors of the middle-income family. The whole issue of individual versus social benefits deserves to be examined relative to the summary withdrawal of substantial support for middle-income families. The operational difficulties of the GSLP, in conjunction with need analysis and a tight money situation, has placed an inordinate degree of financial stress on many middle-income families.

The authors contend that the GSLP as currently regulated, is inadequate. Formal need analysis has the ability to fairly and accurately isolate the higher education "purchasing power" of the low income and the high income families. However, when it attempts to identify the appropriate parental contribution for middle-income families, it taxes these families for the post-financing life style which our economy encourages. Basically, many families in the middle-income group have substantial monthly commitments to installment purchases. Need analysis introduces an ex post facto penalty. The analysis procedures do not recognize the reduction of disposable income or assets which are the result of time payments on consumer items.

Recommendations

The following recommendations are based on the authors' assumptions that there are substantial social benefits derived from higher education and that American middle-income families do have a bona fide need to post-finance higher education costs. These recommendations are directly related to the apparent threefold intent of Congress when the GSLP was revised in 1972.

(1) Retain the affidavit of educational intent. This, in conjunction with a review of other aid committed from institutional and external sources, should adequately control for the abuses which reportedly have occurred.

(2) Provide the interest subsidy benefit for families with adjusted incomes less than $15,000. It should be noted that the 1965 purchasing power of this income, (when the original legislation was passed), has been considerably reduced over the intervening years. This income level should be examined in light of the inflationary erosion which has occurred.

(3) Provide the opportunity for families with adjusted incomes above $15,000 (or perhaps a higher level) to apply for the interest subsidy by submitting to formal need analysis.

Mr. BRUGEL. As I am sure you are well aware, it has been a difficult year for the guaranteed student loan, for the banking establishment, and also for the educational communities. I will not address myself to the problems experienced by the banks or some of the mutual problems we have in administering the program.

I will reinforce the point that Dr. Murphy has made, that our volume has decreased significantly in the area of guaranteed loans.

In fiscal 1973 we had a reduction of almost 24 percent of borrowers within the program compared to fiscal 1971. We find that this year, fiscal 1974, that this decline is continuing.

The cost to the institution to run a program with declining yield of loan dollars for our students has increased sharply. For the centrally operated program for the 20 campuses of the university eligible to borrow under this program, we have a cost of about $50,000 which the university has absorbed.

I have in my statement a study which was conducted at Penn State on the first 1,000 applications that were received under the new guidelines. These are only for dependent students who are seeking the interest benefit. I will try to briefly highlight the findings of our study which we found very distressing. We found that one out of every four applicants who previously would have been eligible under the program were now found to be totally ineligible to borrow on an interest-subsidized basis.

We found that six out of 10 applicants with adjusted incomes in the $12,000 to $12,999 range were receiving a zero recommendation under the program. We found that of the total dollars being applied for under the program, only 59 percent were actually being recommended under the analysis.

I have a graph which I would like to direct your attention to on page 18 which I think very clearly illustrates this reduced flow of loan dollars to our students.

The darkened area under the curve indicates the old flow of dollars when students were eligible for a loan recommendation in Pennsylvania of $1,500 if their adjusted annual family income was $15,000 or less.

The clear area in this graph indicates the flow of dollars under needs analysis. You can see that the darkened area is the flow which was reduced and which did not come to our students under the needs analysis.

Have I made that clear? Fine.

Now, also in my statement I included sample cases for your consideration. I got the cases merely by asking my secretary to pull and review 10 zero recommendations from our files, cases in which the student had been a previous recipient. Of the 10, I chose six which had the complete data we were seeking. In other words, they had the needs analysis information in the folder, not pending filing.

In all of the six cases the expected parents' contribution ranges from 22 percent to 30 percent of after-taxes income which, in my mind, is a very substantial contribution expected from the family income.

Now, one of the difficulties which I am sure has been brought to everyone's attention is the needs analysis, itself, the fact that under needs analysis there are non-allowable expenses which do not go into the computation to derive the expected parents' contribution. Such expenses as credit purchases, home improvements and mortgage payments are disallowed in determining the parents' contribution.

Another factor is that an income supplement is derived, using needs analysis, from the assets a family holds. In many cases these assets may be frozen; an example is home equity.

The major point made with the needs analysis is that it expects contribution out of income where many of our middle income families are in fact living on that current income, have a post-financing lifestyle, live on credit purchases. Their income is committed and, consequently, they have not put a great deal of money away to support educational purposes, nor do they have a great deal from current income to support that.

Now, what needs analysis has done is throw this whole question of their lifestyle into question. Should they, in fact, have obligated themselves previously to certain purchases to that now they must either take the dollars that they have already committed to a purchase or stop paying on those bills to make dollars available for higher education?

Now, several studies have been conducted that indicate that, in fact, the expected parents' contribution is not realized when the student explains in a research survey what he has received from his parents. I could cite those, if necessary.

Another difficulty we have experienced with the program is the flexibility factor that is supposed to be allowed to the institution and also to the banks. In some cases this flexibility is fairly exercised and the intent of Congress is then honored. I think in other cases it is exercised due to the persistence or persuasion of the family, and we have a very uneven administration of this flexibility factor. Some people will receive the benefit of it, others will not.

Finally, I would like to make some comments or recommendations in terms of changes in the program.

First, I would suggest that we remove the needs analysis requirement and establish a break point either at the 15-15 level or 2,000-20,000.

I think this should stem the major tide of abuses which have purportedly occurred with the program.

I would suggest that the loan maximum should be net other aid, looking at the institutional budget, looking at the aid permitted to the student, and then a loan recommendation based on that.

I further suggest the continuation of the eligibility of non-subsidized loans.

I would finally urge immediate action in this area.

Thank you, Mr. Chairman.

Mr. O'HARA. I appreciate your testimony. I think the points you make are excellent. Clearly it is the intention of the sponsores of legislation that the loan maximum be net other aid. The law more or less requires that now, but if that needs clarification, we will clarify it.

I did not catch the figure. I think in the beginning of your statement you mentioned that your volume, the number of students receiving such loans was down at Penn State. Did you suggest the amount by which it was done?

Mr. BRUGEL. Yes; I said in fiscal year 1971—I didn't mention these figures, Mr. Chairman, but we had 10,200 borrowers, whereas at the end of fiscal 1973, 7,800 borrowers which is a reduction of 23 percent on that volume. For that same period, there was a 17 percent reduction in dollars awarded to our students under that program, from $11,530,000 to $9,533,000.

Mr. O'Hara. That suggests that if the present law is operating effectively to take care of the needs of those who need a loan and only excluding those who don't need it, that approximately one out of every four borrowers at Penn State before the change in the law was borrowing from the program with no need.

Mr. Brugel. That is certainly what it would suggest.

Mr. O'Hara. It seems highly unlikely.

Mr. Brugel. It certainly does.

Mr. O'Hara. I was interested in your particular cases. I want to congratulate you for approaching the problem this way because I think it is very instructive.

I would like to take a couple of minutes to run through them.

Here is a couple, the father, a social worker, the mother not employed. They have two children in college, one at State University of New York, one at Penn State. The father made $16,820. The need found for that family with $16,800 gross income, two kids in college, the need is zero.

You have an expected parental contribution which represents 30 percent of the after-tax income of the family. If anyone thinks that is realistic, I don't know where they have been in the last few years.

Mr. Brugel. For clarification, I would comment that that 30-percent figure is the contribution for both children.

Mr. O'Hara. Nevertheless, 30 percent.

Your case No. 2, the father is employed in a factory, the mother in a department store. They have three children, one of them in college, total income of $19,000 between them, and again in a zero recommendation.

The third case is a 47-year-old telephone repairman with two children, one in college, a zero recommendation. Expected parent contribution 23 percent of after-tax income, and so forth.

These are the kinds of cases that have led me to adopt the $20,000 and $2,000 figure. I don't mean by saying that if the under-$20,000 adjusted income family is borrowing $2,000 or less, I don't mean by that I am wanting all of them to borrow $2,000.

I think, as a matter of fact, you would find that as the family income levels were further up that the amount of the loans would be dropping. Not everyone would borrow the $2,000. It seems to me that ought to be available.

As you point out, I think it is unrealistic to think that the so-called discretionary income is truly discretionary. It is discretionary in the sense that you can quit spending it for some of the things you are now spending it, if you are willing to have your automobile repossessed or your mortgage foreclosed. Then you can, indeed, at your discretion spend it on something other than what you are now spending it on. That does not leave you a lot of discretion to be willing to go through repossession if you exercise your discretion.

I think it is also unrealistic to the extent to which assets are figured in.

I don't think that we ought to make a postsecondary education dependent on the family's willingness to refinance the mortgage or to take some other similar action or to move out of the home they are in now into a smaller home in order to have a child attend a postsecondary institution.

Mr. BRUGEL. I certainly agree with that, Mr. Chairman. The assets really are not the major problem with this because in looking at these cases, the income supplement amount which is then added on to their adjusted effective income to arrive at the contribution really does not have a great substantial effect, but it is a factor.

Many people have suggested it is a major factor. I would not say it is major, it is just there and certainly does work a disadvantage.

Mr. O'HARA. Last fall we had some hearings on the operation of the needs analysis system. It seems to me that the basic problem is that we are using needs analysis here for something that it is not really designed to determine. It is one thing to say, yes, if we are going to use needs analysis, and before we make a grant of public funds to you we are going to make sure that you are making sacrifices yourself. But here we are not talking of a grant of any significant amount of public funds, we are talking about a loan. It seems to me that you ought to use different standards. That is of course what I propose to do with this bill.

I don't think the standards that apply to applicants for grants of public funds ought to be the same standards that we use under the guaranteed student loan program.

Mr. Andringa, do you have some questions?

Mr. ANDRINGA. Thank you, Mr. Chairman.

John, how many campuses does your financial aid officer serve?

Mr. BRUGEL. Twenty.

Mr. ANDRINGA. Your staff numbers how many?

Mr. BRUGEL. Ten, working with all the programs. We have two staff members who work virtually solely with the guaranteed loan.

Mr. ANDRINGA. And they are in one location.

Mr. BRUGEL. I would add, if I might, that we also have personnel in each one of the branch campuses who work to assist students, but all the paperwork and decisions are made centrally.

There are individuals, either assistant deans or assistants to the deans available to work with students.

Mr. ANDRINGA. How many applications from the 20 campuses last year?

Mr. BRUGEL. Last year, fiscal 1973, it was down to 7,800 borrowers. When we say applications there could be a variance there but I think it is roughly in the ball park.

Mr. ANDRINGA. So we are talking about 3 or 4,000 applications per full-time person devoted to the task. When the workload is at a peak, do you put other people on?

Mr. BRUGEL. When the workload is at a peak in any of the programs that we work with, we ask staff to perform the staff responsibility, which is to bail us out, if you will, during that period. We do have other staff who assist with appeals.

Our experience has been that the program as currently regulated is extremely cumbersome. It is very confusing and frustrating to the parents and, unfortunately, the institution has had to absorb a great deal of that outrage and frustration.

Mr. ANDRINGA. I am not a financial aid officer but I would agree with the chairman, looking at your six cases, that it would seem unrealistic to expect what the needs analysis recommended. Is this the college scholarship service in all cases?

Mr. BRUGEL. Yes.

Mr. ANDRINGA. How many of these students were you able to sit down with to get this kind of information yourself?

Mr. BRUGEL. You mean to get supplemental information?

Mr. ANDRINGA. How many interviews, letters, phone calls, and so forth—anything beyond the normal mailed-in application?

Mr. BRUGEL. I really don't have that data available, other than to say it has been substantial. Our procedure is to mail a letter to the student telling him what the recommended plan amount is, at the same time forward the application to the bank.

The letter outlines the various appeal procedures open to the student, his options, if you will. We do get a substantial response back. Unfortunately, frequently it is not quantitative. It is not anything you can really deal with other than parents saying "We just can not afford to do this, this is ridiculous, the fact that we can't borrow." So I don't have the data you are asking for.

Mr. ANDRINGA. I would assume all six of these students did get a subsidized loan, is that correct?

Mr. BRUGEL. I really didn't go through the folder to determine that. I know some did. In fact, even though there was a zero recommendation, the loan had gone through in some cases. I didn't keep track of those percentages.

Mr. ANDRINGA. But you are using the discretion that the regulations allow to adjust any application?

Mr. BRUGEL. Based on additional data supplied by the family. The point I would make is that many families are not persistent, do not vocalize or follow through in an appeal and just kind of internalize the abuse of it and it never comes to our attention or to the attention of the bank. So, when I suggest that this flexibility factor is inequitable, it is because some will be vocal and persistent and win through regardless of the merits of their case as banks or schools act just to put some oil on the squeaking wheel, if you will, whereas someone else with a stronger case, much more merit, will in fact not end up with a subsidy.

Mr. ANDRINGA. But you invite them by letter to contact you about their circumstances.

Mr. BRUGEL. We felt we had no other option but it certainly has created havoc for us this year.

Mr. O'HARA. Of course, too, you have something like hidden unemployment. You have a group who are able to make a calculation on their own and sort of conclude on their own that they are not eligible, and never apply. That is another part of the situation that obviously you can't meet because you don't know how many have been discouraged from applying.

Mr. ANDRINGA. You do not have students who could not attend Penn State because of the needs test, do you?

Mr. BRUGEL. I cannot say that. I do have the data available for all students who received a zero recommendation. I have wanted to put aside sufficient time to go back and make a analysis on the enrollment patterns. I have not had time to do that. It is a very important piece of data.

Mr. ANDRINGA. To the extent you are involved, there should be no students if they had responded to your letter and given you the information and so forth.

Br. Brugel. No, that could occur. It could occur where the student made his appeal but the appeal was denied. We do deny appeals. We were warned at one point not to disproportionately use code 6, "parents cannot afford contribution," inasmuch as it might call for some Federal audit on us. We were reassured later on, but the reassurance said reasonable documentation, and it used somewhat vague terms. Consequently Penn State and perhaps other institutions have been somewhat reluctant to do what we felt in our heart was right to aid a family, but perhaps could not defend later on to a Federal auditor.

I would have to say that there are students, although I cannot document it with figures, who did not do that.

Mr. O'Hara. When you use Penn State as an example, you are using an institution that in the range of institutions presents quite a low cost of education.

How do you figure your cost of education?

Mr. Brugel. I would say that in the range of institutions, if we include private as well as public, your observation is very correct, that we would be low. If you look only at public institutions, I regret to say we are one of the higher cost institutions in the Nation.

Mr. O'Hara. You ought to do something about that. I am very strong for low tuition or no tuition.

Mr. Brugel. Our basic budget for a dependent student is $2,800 a year. I know that this is considerably higher than for many other public institutions. Our tuition is $900 annually, putting us in the 90th percentile.

Mr. Andringa. You said that you would recommend either 15-15 or the $20,000-$2,000. You are aware that Senator Pell has a third option and the one option that you recommended then is something that we would have to negotiate in conference.

Could you explain to me why you picked these two?

Mr. Brugel. Yes, I am very pragmatic. I am looking for any change that is going to benefit the student regardless of whatever limitation or break point we assign. I have not had time to do an analysis in terms of the differential impact that we have.

Mr. Andringa. So why don't you just say that is your recommention, that you would not mind Senator Pell's amendment?

Mr. Brugel. I would prefer $2,000-$20,000.

Mr. Andringa. You also said in your recommendation that you would do something to come up with a "loan recommendation."

Are you still assuming then that the school would be giving to the lender a specific figure on what the financial aid officer recommends?

Mr. Brugel. Yes, not based on needs analysis but based on the institutional budget and other aid committed to the students.

Mr. Andringa. I wonder if that is not a thing to pursue if, indeed, the school is still going to be involved in coming up with a recommendation.

Couldn't we discuss dispensing with computerized national service needs tests and simply talk about—it is a kind of need, is it not—the school recommending an amount based on an assessment of financial circumstances, both the cost and student resources?

Mr. **Brugel.** But drawing upon an income entitlement, if you will, for establishing a break point on eligibility. Those people falling above that point could in fact submit to needs analysis if that were part of the legislation. For those falling below that, the recommendation would not be based on need but what is coming in to that student which, in fact, could be above the cost of education. This would be an effort to control the concern about abuses of those dollars while at the same time not arbitrarily restricting their flow, as I feel we have done during this past year.

Mr. **Andringa.** For those above $20,000, when we say they can apply for a subsidized loan if they take a needs test, obviously they are going to have a zero recommendation.

Mr. **Brugel.** No, I would refer you back to that graph on page 18 where we did have families with adjusted incomes over $20,000 who did show need based on highly unusual circumstances.

Mr. **Andringa.** But the typical family which just misses that $20,000 will be so far——

Mr. **Brugel.** Of course, that argument could be held with any break point you establish. Perhaps there is some inequity between 999 and 1 dollar the other way, the 2-dollar difference. I think the decision has to be made to establish one, and by establishing one, the kind of inequities that are introduced are far less severe than we currently have or would have if we followed the suggestion that you have offered relative to no interest subsidy at all.

As you know, many of the borrowers are low-income and lower-middle-income, and, in fact, the introduction over a 4-year period of 7 percent interest, of $1,050 in interest, the charge they would have to absorb, would be rather substantial.

Mr. **Andringa.** I was not trying to resist. I was assuming for a moment that we would go with the Senate or the House proposals and then trying to come up with a better understanding what the school goes through without the needs test. We need to know what it considers and what information it asks of the students and what information it provides the lender, what might be done that is not now being done to provide a better recommendation to the lender, without delaying things for 6 weeks for a formal needs test.

If you have ideas in that area, I would like very much to have them.

Mr. **O'Hara.** It seems to me that rather than having the institution make recommendations, it would be very difficult for the institutions to make recommendations. If they are going to have to make recommendations, there ought to be some sort of mechanical formula they can fall back on, such as the needs analysis or some revised version of it.

Otherwise they have a very serious public relations problem, it seems to me, with their students when student John Jones comes in and says, "I am applying for a loan of $2,000 at the First National Bank," for the student loan officer to say, "Let me see, I am going to recommend that you not be given that loan."

If I were the student, I would be a little bit upset by that. I think you would be reluctant to do that.

Perhaps what we ought to require the student to furnish, if he has to furnish something for the university, a statement from the university showing the budget for a student in the circumstances, the estimated budget for a student in the circumstances of the one who is making the application. Let us say a single student, who is also a dependent, a dependent single student living in the dormitory or whatever; also showing any assistance that that student is receiving under other programs administered by the university.

So, then the bank has before it when it considers the loan, one, a statement of what a year in school ought to cost the student and, second, a statement of what other help he is getting.

Mr. **Brugel**. That would certainly be a much more manageable program from Penn State's viewpoint, Mr. Chairman. You are suggesting that, rather than make a recommendation, we just provide additional data to the bank for their decision?

Mr. **O'Hara**. Or confirm the data supplied by the student perhaps, in his application. In his application he is asked to list any other forms of assistance he is receiving. Perhaps you can confirm that.

Mr. Andringa?

Mr. **Andringa**. Mr. Chairman, if I could, I would like to say that some of us are going to meet for an hour or two following the hearing, and in case there are people who are knowledgeable we would like to invite them to stay.

Mr. **O'Hara**. Where are you going to meet?

Mr. **Andringa**. Right here.

Mr. **O'Hara**. All right. Those who, like me, have given up lunches, are invited to stay, if they will.

The Chair wishes to thank our witnesses for the light they have shed on the problem.

At this time we will declare the meeting of the subcommittee in adjournment. We will meet tomorrow morning in this room at 10 o'clock to take further testimony with respect to this proposal.

[Whereupon, at 11:55 a.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, Feb. 14, 1974.]

HIGHER EDUCATION LOAN PROGRAMS

THURSDAY, FEBRUARY 14, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to recess, in room 2257, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Lehman, and Burton.

Also present: Jim Harrison, staff director; Al Franklin, counsel; Elnora Teets, clerk; and Robert C. Andringa, minority staff director.

Mr. O'Hara. This morning we are continuing the hearings that began last week on H. R. 12523 and related bills, legislation to eliminate "needs" analysis from the guaranteed loan program for students whose families have incomes below $20,000 a year and who are borrowing $2,000 or less.

Our witnesses include spokesmen for a private guaranty agency, witnesses for the banking community, and spokesmen for the Student Loan Marketing Association, an agency created by the 1972 amendments for the purpose of building a secondary market for student loan paper.

Our first witnesses will be Mr. Charles W. Meares, president and chief Executive officer of United Student Aid Funds, accompanied by Mr. Robert C. Sinnaeve.

STATEMENT OF CHARLES W. V. MEARES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ACCOMPANIED BY ROBERT C. SINNAEVE, VICE PRESIDENT, UNITED STUDENT AID FUNDS, INC., NEW YORK CITY

Mr. Meares. Mr. Chairman, my name is Charles W. V. Meares. I am president and chief executive of United Student Aid Funds, Inc., 845 Third Avenue, New York City. With me is Robert S. Sinnaeve, vice president of United Student Aid Funds, who has been with our organization for the past 5 years and has devoted his entire working lifetime of more than 17 years to the matter of studnet aid, in one capacity or another.

United Student Aid Funds is a private, nonprofit, tax-exempt corporation formed in 1960 for the sole purpose of enabling deserving students to borrow money to help them meet the expenses entailed in attending college. Our organization was founded in the belief that there should be no economic barrier to the motivated student who is capable of benefiting from a college education.

At the same time, we believe that no student should be encouraged to undertake a burden of debt so great that it may handicap him in later life or force him into an unwise career decision. We view student loans as a kind of last resort, to be used only as a final supplement after all other available sources of financial aid have been utilized.

Over the last 10 years or so, both my predecessors at United Student Aid Funds appeared several times before this committee and other congressional groups to present their views with respect to a variety of legislative proposals that have been made from time-to-time in regard to loans for education and related matters. I am grateful that once again we have been given the opportunity to give you our thoughts on the legislative change you are now considering.

The proposed amendment to the Higher Education Act which is before this committee today would do away with the so-called "Needs Test," which came into being March 1, 1973, less than 1 year ago, for students whose families have incomes of less than $20,000 and do not wish to borrow more than $2,000 in a single year. This virtually amounts to a return to the previous law which had not worked satisfactorily because it was subject to abuses, abuses which the March 1, 1973, amendment was intended to eliminate. We at United Student Aid Funds, believe that to simply adopt the amendment before you and return to the old type of program would be a serious mistake.

It has always been our position that determination of student need should be based on a test far more refined and sensitive than the simple matter of family income. It may seem unnecessary to make the point, but I cannot refrain from saying that many a family with an income slightly over $20,000, because of having several children in college, dependent parents and other financial obligations, is less able to support college costs than a family with an income of slightly less than $20,000 but with only one child to educate and a minimum of other financial responsibilities.

In our view, eligibility for governmental assistance should be based, in part, on the family's ability to contribute toward the student's education, such ability in turn to be determined in light of each family's unique circumstances.

The needs test embodied in the present law is supposed to bring this kind of refinement into the determination of eligibility. If it is failing to do so in some cases. It is probably due to too rigid a adherence to the arithmetical results that emerge from a computer analysis and too little use of the flexibility that has been granted under the law and regulations to the financial aid officers of the colleges and universities.

In my opinion, no test can be devised that can be a substitute for good human judgment. A computer test can provide a guideline but, in the last analysis, only a competent well-trained financial aid officer taking account of all the individual family circumstances can make the final judgment as to whether a loan is really needed and in what amount.

Efforts to encourage financial aid officers to exercise their own judgment and not feel rigidly bound to strict adherence to computer analyses have been made by the chairman of this committee and by officials of the Office of Education. Such efforts should be continued and enhanced.

Everyone who has an interest and a responsibility in the student loan field has a growing concern about the default rate. This rate has been mounting rapidly in recent years. Many people believe this increase has been due, at least in part, to the "no questions asked, provided family income is below a certain level" type of program we had until March 1, 1973.

There has not been enough time since then, particularly in view of the fact that student loans do not call for immediate repayment, to ascertain if the new program has had any beneficial effect on the default rate. But common sense and our more than 13 years of experience in this field would indicate that the counseling built into the new program must, and would, improve the situation if given a chance to work.

I realize that the committee is considering a change largely because of complaints that the present program is shutting out too many students from Government assistance on their loans. Again, if more individual judgment were exercised by financial aid officers, no really deserving student would be shutout by the need-determination process. And additional efforts can and should be made to encourage the use of that judgment.

The complaint is also heard that a number of banks and other lending institutions are unwilling to make student loans. I believe this to be true even though the recent establishment of Sallie Mae should have removed some of the liquidity deterrents. I am not here on behalf of the banks, and it may be presumptuous of me to seem to speak for them, but if banks are reluctant to participate, or if there is a trend towards withdrawal from the program, there must be some reason for it.

I think there are, in fact, a number of reasons, not the least among them being that the governmental program has been subject to so many patchwork changes that keeping up with them has imposed a terrific administrative burden on a program that is, at best, a break-even proposition for the participating lender. A further patchwork change at this time, without considering other needed revisions, would probably drive away still more lenders.

In urging that you do not adopt the amendment now being considered, I do not mean to imply that the program as it now is working perfectly and that it is not subject to some improvement.

On the contrary, I feel that some revisions could and should be made. For example, thought needs to be given to the very important question of attracting lenders to the program so that deserving students can obtain loans more readily and won't have to hunt to find an institution willing to make an approved loan.

We should also think about the level of the "insurance fee" for the loan guarantee—now 1/4 percent per annum under the Federal program and 1/2 percent per annum under the State and private sector programs. Neither fee is high enough to cover the present default rates. Related questions are the desirability of having the same insurance fee for the governmental and private programs, and the equalization of other differences between the two sectors.

Then, too, there is the fundamental question of the desirability of the Government's paying loan interest for any student. With the cost of the interest subsidy expected to exceed $300 million in the coming year, it would seem that we ought to take another look to see if that kind of money couldn't be better spent for other educational or related purposes.

In other words, we believe that what is needed is a broader look at the entire program. We would urge that this be done as soon as possible, even as part of these hearings. United Student Aid Funds would be glad to participate and let the committee have the benfit of its thinking. The only purpose of our organization, as I said at the outset, is to help deserving students get a college education. To that end, we stand ready to help in any way we can.

Mr. O'HARA. Thank you very much, Mr. Meares.

Mr. Meares, it might be helpful to the committee if you could describe the role that your organization plays in the student loan program. Could you do that for us?

Mr. MEARES. Yes. As we started out originally, and the program has been broadened since then, we began by working with colleges who would make deposits of money which became reserves for us and on the basis of their deposits we gave them a borrowing capacity of, today it is 10 times the amount of the deposit.

So that, if a school gives us $10,000 in our custody, we give them a borrowing capacity of $100,000. We work with banks and other private lending institutions throughout the country who will make loans to students based on the fact that we guarantee them, we endorse these loans, and of course the concept of the viability of this program is that the deposits we hold and the investment income we have from those deposits plus later on the insurance fee that we charge the participating students will cover the defaults as they are experienced.

Of course, when a bank experiences a default, we buy the note from them and subsequently endeavor to collect from the student.

In essence, I think that is about what our program is.

We are in other programs besides. We are now inducing employers, for example, to make similar arrangements with us on behalf of their employees.

Some of these things are brought about because of the difficulty that borrowers have in finding banks who are willing to make Government insured loans.

I would like to ask Mr. Sinnaeve to speak a little bit more about the state agency program. I should explain, Mr. Chairman, that I have been connected with the United Student Aid Funds for 2 months. After 48 years in the life insurance business, I have entered a new field. Mr. Sinnaeve is my technical expert here. I think he would like to tell you a bit about the role of the United Student Aid Funds in the state agency programs.

Mr. SINNAEVE. Under the agency role we act as an administrative agent for various states that either, for one reason or another, for economics, or whatever, appoint us to administer the program in their state for their students.

Presently, we administer a program for the States of Alaska, Delaware, Maryland, South Carolina, and Maine. Acting as their agent, we guarantee loans for their students.

In addition to that, as Mr. Meares pointed out, there are various organizations, foundations, and corporations, that ask us to administer programs on behalf of their interested students. An example would be the returning volunteers from the Peace Corps, the Job Corps, and the Ford Foundation for Minority Law Students. We guarantee loans for their interested students to attend schools throughout the country, the loans being made by banks throughout the country.

So, we wear many different hats, as we like to say. We act as the agent of a college, we act as the agent of a state, and we act as the agent of individual foundations or corporations, and in addition, United Student Aid Funds accepted an administrative role under the Higher Education Act for funds appropriated 1965 for various states. The Commissioner of Education contracted with the United Student Aid Funds to administer those funds for those states.

Mr. O'Hara. It is interesting to me to hear your observation that although none of the evidence is in yet, you think that the change made in 1972 reduces the default rate and the change proposed today would increase it.

Now, on what hard evidence do you base that opinion?

Mr. Meares. I would like to ask Mr. Sinnaeve to answer that because he lived with the United Student Aid Funds under the former program, and I think he can tell you more about the troubles they had at that time.

Mr. Sinnaeve. In general terms, I can't give you specifics, but in general terms I believe the opinion is that, when you have a "no questions asked" type of program where there is insufficient counseling to the student, when he is not properly advised as to how much he should borrow, what he is getting into, when it becomes an automatic program, it is conducive to irresponsibility, "If you don't care, I don't care" type of attitude among the borrowers.

I think we evidenced, previous to the Higher Education Act of 1965, a much lower default rate because historically we required that the financial aid officer recommend the amount of the loan to the lender.

While there was no binding obligations on either party's part, there was definite counseling, there was a closer look at the student and his resources, and our default rates were much lower.

Then with the imposition of the "no questions asked" automatic "family income below $15,000," I think the counseling part of the program broke down to some extent and this was conducive to a climate among the borrowers, "Well, no one really cares that much about what I am doing," and they paid little attention to what their responsibilities were.

Mr. O'Hara. What were your comparative default rates?

Mr. Sinnaeve. Pre-1965 they were about 3 percent. Now they are peaking at 6 percent. This is to the matured paper.

Mr. O'Hara. According to the article that appeared in yesterday's Star, the national rate is only 4.3 percent.

Mr. Sinnaeve. I believe that is probably because their matured paper has not reached their maximum point of exposure where ours has.

In other words, a program that is more mature will have greater exposure because the paper is becoming due and the exposure to default—the day of reckoning as far as our history is concerned—has arrived.

The Federal program which came into existence later, has not reached its peak yet.

Mr. O'Hara. In other words, if your default rate is higher than the experience under the Federal law, it is because the loans you made before the Federal guaranteed loan program came into existence started to turn sour, is that right?

Mr. Sinnaeve. No. The loans since then are now turning sour.

Mr. O'Hara. Why are your loans since then more mature than somebody else's loan since then?

Mr. Sinnaeve. Because the federal program, I don't believe started until 1967 or thereabouts, where we started in 1960. I don't think the federal program started until 1967. I could be corrected.

Mr. Meares. There could be some misunderstanding, too, I think on default rates as we are talking of them here. I would expect that the 4.3 percent rate that is quoted here is net after recoveries and the corresponding figure for our organization today would be 4.6 percent. So that there is not really a great deal of difference between those two figures.

I have seen figures, Mr. Chairman, that have been a good deal higher for the federal program than 4.3 percent. I have been told of figures running 8 and 9 percent as more the normal thing.

Now I cannot challenge these figures actually, for I haven't seen them. But, haven't we seen figures, Bob, that were up in the 8 or 9 percent area?

Mr. Sinnaeve. Yes, from time to time.

Mr. O'Hara. According to yesterday's Star from 1968 through 1973 the Office of Education estimates $5.8 billion has been lent to just over 6 million students under the loan program. Through 1975 officials figure insured loans will total $8 billion with $342 million in default. Expanded collection efforts should recoup some $240 million, leaving a net loss of $102 million. The gross amount of default, $342 million, constitutes 4.3 percent of the total.

Mr. Meares. If that is of the total loans outstanding and not of matured paper, then they are using a different denominator in their equation than what we used. I think perhaps that may be the source of the trouble.

You see, you cannot really say that a loan is in default until the time comes for its repayment.

Mr. Sinnaeve. Our comparable rate of default to what you just mentioned as taken from the newspaper would be 4.31.

Mr. Meares. It is exactly the same figure.

Mr. Sinnaeve. That is as of the end of January.

Mr. O'Hara. What do you do when a loan goes into default? Exactly what do you do?

Mr. Meares. Again I think, if you ask exactly what we do, I will turn to Mr. Sinnaeve because until 18 months ago he was in charge of our endorsement center in Indianapolis where defaults are handled.

So, Bob, would you respond?

Mr. SINNAEVE. Prior to the purchase of the default from the lender, there is considerable activity to try to, what we call, cure the default, get it back into good standing in the lending institution. When the lender notifies us of either a delinquent condition or a default condition, we endeavor through a computer linkup with Western Union and post offices to send the student a message, a very concise message, telling him exactly what the condition of his loan is, and we urge him or her to contact the lending institution and fix this matter up.

At the same time we notify the school that the student attends of this condition, and we notify the comaker, if there is one, and, if possible, we try to reach any interested party to see if they can help cure the situation.

If that fails, then our staff, prior to purchasing the loan from the bank, attempts to reach the borrower by phone. If that does not cure the situation, if he has skipped or the student won't respond, or hangs up on the phone, we honor the guarantee and purchase the loan, principal and interest, from the lending institution.

If, at that point, we still haven't reached the borrower and there appears to be no cooperation and we are not getting the response from the school or the parents or the co-maker, we contact with a national collection agency and instruct them to use all legal means, including suit, if necessary, to recover the loan.

We perform a very exacting and careful review of the performance of the collection agency. We monitor every loan every quarter to see whether or not there is activity in the collection process.

Mr. MEARES. I would like to add to that, Mr. Chairman, that from what I have seen and records I have seen of the organization, I can vouch for the fact that where there is intent to pay and a desire to pay, but an inability to pay, every possible consideration is given to the student and every opportunity given for deferment of payment, and things of that sort, due to any hardship that may exist.

Mr. O'HARA. Gentlemen, I want to assure you before we go on to the next witness that the committee does not intend in any way to consider that the problems of the guaranteed student loan program have been cured if legislation of this sort which is now pending before us is promptly enacted.

There are a lot of questions, I think, about the efficacy of the program in a number of ways. Questions have even been raised about the basic validity of the program and the advisability of permitting students to borrow as much as they may borrow under the program now and entering their careers saddled with a debt of the size that they could possibly contract.

What we have tried to do really is to make a determination that the changes that we made in 1972 haven't worked out quite the way we intended.

We tried to cure that last August by urging administrators, bankers and student loan officers, to exercise greater discretion because of the charges that the amendment had wrought that I think were intended. We are not impressed with the results of those implementations.

What we are looking to do really is to restore the status quo ante, as it were, and then see what we can do to revitalize the program.

I hope that you won't take any action on this single matter as being our final consideration of the student loan program this spring because it won't be.

Thank you very much for appearing.

Mr. MEARES. Thank you, Mr. Chairman.

Mr. O'HARA. Our next group of witnesses are members of the board of directors of the Student Loan Marketing Association. Mr. Edward McCabe, chairman of that board, is accompanied by Mr. Allan Purdy, who appeared before us yesterday in his capacity as the spokesman for the National Association of the Student Financial Aid Administrators. Mr. Purdy appears today as a member of the board of Sallie Mae.

Mr. McCabe, we will be very pleased to hear from you.

STATEMENT OF EDWARD McCABE, CHAIRMAN OF THE BOARD, STUDENT LOAN MARKETING ASSOCIATION, ACCOMPANIED BY ALLAN W. PURDY, DIRECTOR, STUDENT FINANCIAL AID SERVICES, UNIVERSITY OF MISSOURI, AND MEMBER OF THE BOARD OF DIRECTORS, STUDENT LOAN MARKETING ASSOCIATION

Mr. McCABE. Thank you, Mr. Chairman.

Neither Mr. Purdy nor I has a prepared statement. It occurred to us that it might be useful if we would quickly review in about a minute or two the activity of Sallie Mae, comment very briefly on your amendment to the extent that amendment bears on our responsibilities, and then we will be happy to respond to questions.

The Student Loan Marketing Association was established by the 1972 amendments and the corporation was formed in early 1973. We have a 21-member board of directors. Seven were chosen, following the statute, from the financial community, seven from education, and seven are public members. We now have assembled a management staff of some 30 fulltime employees. Our headquarters office is in Washington.

The board of directors has met I think 10 times. We had our most recent meeting last week. We are scheduled to have a further meeting in April.

The essential function of the Student Loan Marketing Corp. is to set up a secondary market to permit lenders both financial and education lenders, to dispose of the accumulated student loan paper which so many of them have in great quantity.

Sallie Mae will accomplish this task in two ways and we are already operational in one of those ways.

These are a warehousing program and a purchase program. The warehousing program is really a sort of secured loan transaction.

You will recall in your legislation you prescribed that the warehousing or storage or factoring, whatever, of this student loan paper would be done on a basis whereby Sallie Mae would give the lender 80 percent of the face value of the paper he would store with the corporation.

There is a requirement that these funds be reinvested in further student loans. We began this warehousing program last September, made our first payment to lenders under it the first week in October. Thus far—I don't have the exact figures—we have moved out something in the area of $100 million, and have warehoused paper to correspond to that amount.

The next step, the second prop under which we stand as a corporation is the purchase and sale program. There we would buy this paper from lenders and there would be no requirement—there is no requirement in the statute—that these funds would go into additional student loans.

I cannot give you a precise date here this morning, but I would expect that within the next couple of months we will be purchasing loans from lenders. How much business we do I believe will be a factor of demand.

But we are already in operation. We have funds and we are responding to those lenders who wish to warehouse paper with us. We will shortly be ready with funds to buy from lenders who wish to sell their paper to us.

In terms of this amendment, this legislation you are now considering, we do not have any formal position of the Student Loan Marketing Association board. But we would, as I said earlier, be pleased to respond generally to any questions which you may have where you think we might throw some light on the matter.

I would say just two things. First of all, in our view the most critical single problem in this guaranteed student loan field today is the default rate. I have heard a lot of figures. I have read a lot of figures over the last several years. Each quotation somehow differs from the one before. Wherever the number is pegged, it is much to high. Whether it be 4.3, as the Chairman referred to from an article in the paper yesterday, or a higher number, I think there would be general agreement among all concerned that this is the most critical single problem.

It is a problem for us in Sallie Mae because, as we go forward to buy accumulated loan paper from lenders, we are not anxious to buy bad paper. We are going to be concerned with the quality of the paper we buy. You in Congress, when you established this corporation, directed us to go out and run it for profit. I might say, incidentally, we are doing so. We made a few dollars this past year. The audit figures are not yet in, but we ran it at a modest profit.

But we have to run it as a business, and we must be concerned with the quality of the paper that people offer us and ask us to purchase.

Whether the default rate be 4 percent, 5 percent, 6 percent, as I said, it is too high. Certainly I believe, speaking as one member of the board, that you gentlement and ladies in Congress, as you look at this legislation, ought to look very squarely at this default pattern.

No consumer loan program in a commercial lending institution can survive very long when the default rate runs higher than 1 percent.

I think we have to look hard at the fact that these guaranteed student loans are private commercial credit transactions. They are very different from all other areas of student aid and, at $1 billion a year they are the biggest single item in student aid today.

So, we would urge that you take a very hard look at this default situation because it is, as I said, in our view the single most serious problem in the whole program

Mr. O'Hara. Mr. McCabe, I appreciate that. I think it is the most serious problem. We do have to examine it. We have to examine it in the light of not only the kinds of programs but the experience under other student loan programs, both privately endowed and, for instance, the national direct student loan program.

Now, our last witness suggested that perhaps the lack of counseling had something to do with the default rate, that counseling would bring down the default rate. But counseling is involved with the national direct student loan program, and I am not aware that the direct student loans have a lower default rate than do the guaranteed loans.

Perhaps Mr. Purdy could respond to that.

Mr. McCabe. I would suggest that he respond there. He is far more expert than I am.

Mr. Purdy. I think all of us in our experience wish we had the wisdom to know the full explanation for defaults, because none of us is happy with them. We watch both the insured loan default rates and the national direct rates, which used to be called the national defense student loan.

Now, in my experience of some 20 years with the University of Missouri, and 16 years since the NDSL started—Mr. Sinnaeve mentioned sort of a division date of 1965 as default rates before and default rates after—now, if I look at just the University of Missouri record at that time on NDSL prior to 1965, I could boast of a default rate on matured paper of less than 1 percent.

I cannot show such a good rate since 1965 on matured paper because it is now approaching 3½ to 4½ percent. Now, that is under the same administration, under the same rules, under the same counseling, but not under the same philosophical, national feeling: namely, students were encouraged that, "We have a war on poverty, we are going to make these opportunities available, come and avail yourselves of them."

We all know, and we sometimes show our age when we refer to young people, but there was, indeed, an atmosphere of antiestablishment. While some students were borrowing money in 1966 and 1968, some were borrowing from the banks, others were bombing the banks.

Mr. Burton. What was that ratio, roughly?

Mr. PURDY. Well, it was too high, whatever it was.

Mr. BURTON. About 4 million to one, something like that?

Mr. PURDY. But the atmosphere was there you know. There was too much anti-establishment atmosphere, and the courts, once they let one student take bankruptcy and get by without paying the student loan, had a deleterious effect on some of the others. I think we have passed the worst of that. I think our students are more down to earth and more accessible to counseling, more receptive of counseling, and I think in the national defense picture or national direct loan picture, that we are still going to see an upswing of default rates on that paper that was put out between 1965 and 1971 perhaps. I do not expect a further increase on those new loans made after that.

So, we have a real philosophical situation here, and when we look at where our defaults are, a lot of them are from the dropouts from the low-income areas rather than from the sons and daughters of the working class or the lower middleclass incomes. This is a price we are paying, I think it is higher than we hoped it would be. I certainly agree that every program should be accompanied by wise counseling at the college level and at the lender level.

I mentioned yesterday I think one of the early faults of our program was either in the wording of legislation or the legal interpretation by the legal staff in USOE which put in writing a directive that the lender could not use the lack of need as a reason for refusing the loan, and the financial aid man was forbidden to offer a judgment. On March 1, supposedly that was to be changed.

I think our need analysis was too strict. I think there was a lot of confusion on it, and an awful lot of paperwork in the program.

So I think the whole program needs to be looked at in terms of changing those things which we can all agree on will make the program better, but I am, of course, in the interest of the students, interested in seeing an availability of credit which is reasonable and within the good common sense of a society that wants to develop our students to the best of their ability.

Mr. O'HARA. I have had a little difficulty following the reasoning that says, if this amendment is adopted making it possible for the children of families in a stronger financial position to borrow, that will increase the default rate.

It always has seemed to me that whatever their merits as individuals, a child of the Rockefellers is in a stronger financial position than a child of the O'Haras, simply because the Rockefellers are in a much better position to help pay off the loan than the O'Haras are.

I am unable to see how extending loans to families that are in a stronger financial position than those now eligible for the loans will increase the default rate. It seems to me it might even decrease it.

Mr. McCABE. It is hard to tell. I suppose, Mr. Chairman, a McCabe should always defend an O'Hara. But then an O'Hara never needs defense, so we will let that one go by.

It occurs to me that what we had here in the prior years to which Mr. Purdy referred, was a set of conditions under which these defaults grew. Now, I don't know what, of a number of combinations, brought about the defaults. But the hard facts are, regretably, that last year you in Congress had a line item appropriation of something in excess of $45 million to pay defaults at the Federal level.

This year, the current year, I believe that is somewhat in excess of $85 million. Now, I understand that the budget request for fiscal 1975 for the same line item is $115 million.

Now, something has happened, or several things are happening, to bring this about. I think perhaps all I am saying here is that you ought to be very wary about returning to a condition, to a set of circumstances, under which this default pattern has occurred, whatever its varying reasons.

In short, you would seem to be moving into an area of known danger, returning to an area of known danger. I don't suppose we've had enough time under the new situation, which began in March 1973, to know what that pattern may be as it develops. But there is some kind of lesson from history here that perhaps we ought to learn, and this is what concerns me as chairman of the board of the Student Loan Marketing Association.

Mr. O'HARA. The problem, though, with the system we are now operating, is that in order to pass the needs test to get the loan, the family has to be in a position where what they need is not a loan but a grant.

Mr. MCCABE. In the application of that 1972-73 change, yes.

Mr. O'HARA. So, what we are doing is that we are really excluding the people for whom the loans would be most appropriate and putting them in the hands of the people for whom grants would be more appropriate. We are sort of backing down the scale.

Mr. MCCABE. Might you not get back, by a modification of this needs assessment, something that will bring the borrowers' circumstances into focus and allow the college and the lender to give them some help?

After all, most of these kids are 17 and 18 years old. This is their first commercial credit experience. To me it seems a shame—if I am a 17-year-old with no prior banking experience, and I have heard that I can go to a bank and get a loan—it seems a shame somehow to deny me, by regulation, the opportunity to have some wiser people counsel with me. It seems a shame to set up a condition under which I go and borrow whatever I think I need, whatever I am entitled to, and to have people of the wisdom and experience of Allan Purdy foreclosed from counseling with me, to have a lender foreclosed from counseling with me.

Whatever you do, I hope that you build into this mechanism a real three-way relationship involving the borrower, the school, and the lender, so these kids will not be cut adrift to take a burden on themselves which is more than they need and more than they want.

Mr. O'HARA. I would think that that is what the banks would be doing.

In the first place, the banks are not going to make as many loans as there is demand for under any set of circumstances. They never have under this program, and I am sure they never will, no matter what we do.

Secondly, I had always thought that that is what the bank loan officers were doing: discussing with the prospective borrowers the purpose of the loan, the need for the loan, the terms of repayment, and so forth. I know anytime I have been in a bank seeking a loan, they didn't just say, "Here, sign on the dotted line. How much do you need?"

They said, "Now, wait a minute. For what do you propose to use the money? What sort of security do we have or could you give us? You know, they want to know something about it.

Mr. McCabe. But the pre-1972 rules prohibited that, effectively prohibited it. As Mr. Purdy said earlier, the college was foreclosed, the lender was effectively foreclosed, from really counseling with these kids.

Mr. O'Hara. Perhaps that is the kind of change we need.

Mr. Purdy. I certainly would have to say, as we have both talked and worked together, I don't think there is any program that is going to function the way we want it to without the exercise of good judgment and wisdom on the part of the trio: the lender, the borrower, and the student aid counselor.

I don't know, maybe I don't read the fine print or the legal language correctly, but I hope that this amendment has in it nothing that would put us back in the situation where the Office of Education could issue a directive to the lender or to me as a financial aid officer, saying this is a transaction on which you cannot exercise judgment. I hope that we are not going back to that.

I see the amendment recommended here as written up so that the lender could exercise judgment, and I could still exercise judgment.

Mr. O'Hara. I certainly think that ought to be clear, either explicitly in the legislation or implicitly, in such a way as to make it clear to the Office of Education that no such strictures are to be imposed on either student loan officers or on lenders.

Does the gentleman from California have any questions?

Mr. Burton. No, Mr. Chairman.

Mr. Purdy. In light of your comment there, I think the lender, on the form that we use, needs to be provided with more information than he has previously had which would assist him in counseling with the student.

I think this is one of the things. When a student applies to us, we get a pretty good rundown on his family situation, whether he has worked this summer and saved money, whether he has a savings account, and then we would provide any other aid in terms of grants, or job on campus, or anything else. If the lender is going to make a wise loan, I think he should know these things as he deals with the student to whom he is offering additional credit.

Mr. O'Hara. Yes, I think that makes a good deal of sense. The application form provides for much of that, but it doesn't have any place to show, for instance, the typical budget of that school, so the loan officer may not know how much it ought to cost that borrower to go to school.

I think perhaps we ought to go into some of that on the application so that the bank's student loan officer knows what it takes to send that kid to school for a year, what other resources he has available to him, and then they can make an intelligent decision as to whether or not he ought to qualify for the loan.

The gentleman from Florida?

Mr. Lehman. I was trying to figure out your 4 or 5 percent default ratio. Is that 4 or 5 percent of the average outstanding of that year is defaulted, or 4 or 5 percent of the numerical number of students?

Mr. **Purdy.** In our case it is of the matured paper. In other words, these folks have graduated or dropped out of school, and they are supposed to be repaying. These are people who either we can't find because of lost addresses, or they are people who have seriously defaulted in their payments.

Mr. **Lehman.** What is the amount of the matured paper, gross amount?

Mr. **Purdy.** Now I am talking about the national direct loan. I expect we have around $3 million in matured paper.

Mr. **Lehman.** How much of that is charged off each year? I have been in the consumer finance business. I am just trying to relate what my own background tells me in regard to this.

Mr. **Purdy.** Actually, under the law there is none of it charged off. We still have it on all the books.

Mr. **Lehman.** You say anything above 1 percent is too much, but 1 percent of what?

Mr. **Purdy.** Mr. Lehman, our figures are based upon all of the money in a payout status or that which has matured which has not been repaid.

In other words, if we loaned a million dollars, and we lost 4 percent of it, that is $40,000 gone. This is what I mean. Of every million dollars that we have tried or are trying to collect, we have $40,000 that we are not sure now we are going to get.

Mr. **Lehman.** I have run a consumer finance business. If we had an average outstanding of a million dollars and at the end of the year we had to charge off $40,000 as uncollectible, we had a 4 percent loss ratio. I am trying to relate your loss ratio to that kind of bookkeeping.

Mr. **Purdy.** These are exactly the same figures that I am quoting here; it is exactly the same except that we are not permitted to charge it off as a loss. We have to carry it, and then in subsequent years we build up to another million dollars which should have matured and been paid off and by that time we may have run through $2 million of matured paper, and we have $80,000.

Mr. **Lehman.** Does the $85 million line appropriation mean that you are charging off $85 million worth of paper?

Mr. **Purdy.** This in the insured loan program means that the lenders have not collected $85 million or $55 million or whatever. The lender has been repaid. The paper now belongs to the U.S. Government. The U.S. Government can make an effort to recover that money .They are making an effort, but they have not had a sizable staff going after it.

Mr. **Lehman.** What you are doing is trying to collect on paper that is already in default.

Mr. **McCabe.** You bought the defaulted paper.

Mr. **Lehman.** If you are trying to collect 95 percent of defaulted paper, that is a good ratio.

Mr. **Purdy.** Let us say the collectors are collecting 95 percent of the original paper, the 5 percent going to the Government now, they are tooling up to put a lot more personnel on seeing how much of the other 5 percent they can collect.

Mr. **Lehman.** A salvage job.

Mr. **Purdy.** That is right. They certainly won't get 95 percent of that, but we hope they can get half of it or so. I don't know what they will get. They have not really made the concerted effort yet.

Mr. McCabe. Another way to look at the figure perhaps would be that you have $115 million of bad paper turned over to the Government for which Congress has appropriated money. The average loan is somewhere in the neighborhood of $1,000. This means that there are 115,000 students who have failed to pay.

Mr. Lehman. The banks?

Mr. McCabe. That is right.

What Uncle Sam will be able to bail out of that, the Lord only knows. It will take time to find out.

Mr. Lehman. 115 million, roughly 4 percent of the total gross amount that you guaranteed banks.

Mr. McCabe. I don't know how those figures would relate now.

Mr. Purdy. I would say that is more nearly the 4 percent or some percent of that paper which, not the total which is loaned, but the total which has been loaned and come into a repayment status.

Mr. Lehman. 4 percent of the total money that is now due and payable to banks?

Mr. Purdy. Yes.

Mr. Lehman. Or due and partially payable.

Mr. Purdy. Yes. Does that answer your question?

Mr. Lehman. Yes, but I think you compare apples and oranges when student loans should not be 1 percent when you are picking the bottom of the barrel in making student loans with no possible credit rating.

Mr. Purdy. In other words, you are saying let us look at the 95 percent of the students who are borrowing and who are paying back.

Mr. Lehman. I once knew a credit man who got fired when he cut down the loss ratio from 10 percent to 3 percent because he was being too tough on sales.

Mr. Purdy. This is what we have been told to do, and that is for the student who wants to get a post-secondary education, it is our job to see if we can help him arrange his financing.

As you say, in so doing in some instances we do scrape the bottom of the credit barrel.

Mr. Lehman. Well, just don't lose faith.

Thank you Mr. Chairman.

Mr. O'Hara. Thank you very much, gentlemen.

Our final witness today is Mr. Harry Drolet, senior vice president of the Connecticut Bank and Trust Co., representing the American Bankers Association.

Mr. Drolet, we will be very pleased to hear from you.

STATEMENT OF HARRY J. DROLET, SENIOR VICE PRESIDENT OF THE CONNECTICUT BANK & TRUST CO. OF HARTFORD, CONN., APPEARING ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION, ACCOMPANIED BY CHARLES O. ZUVER OF THE AMERICAN BANKERS ASSOCIATION

Mr. Drolet. Mr. Chairman, members of the committee. I am Harry J. Drolet, senior vice president of the Connecticut Bank and Trust Co. of Hartford, Conn., appearing on behalf of the American Bankers Association. Appearing with me is Charles O. Zuver of the American Bankers Association. You have copies of our statement which we would like to have made part of the official record. This statement:

1. Expresses the increasing apprehension of bankers as the academic year 1974–75 approaches.
2. Indicts the current needs test for interest subsidy determination as complicated, confusing, and unduly restrictive.
3. Recommends a return to a program of conclusive presumption of interest subsidy entitlement in all situations where adjusted family income is below a given level. We endorse the proposed level of $20,000.
4. Urges the extension of the special allowance program to be coterminous in 1975 with the current Higher Education Act of 1965, as amended.
5. Prays for early enactment and implementation of the proposed changes.

We have said these things before and I am certain the committee has heard them many, many times. With the chairman's permission, therefore, I request that we be permitted to submit this statement for the record unread and that whatever time is available this morning be used to respond to questions from the committee from the vantage point of the banking community.

Mr. O'HARA. Thank you very much, Mr. Drolet.

Without objection, your full statement will be made a part of the record of this hearing.

[The statement referred to follows:]

STATEMENT OF HARRY J. DROLET, SENIOR VICE PRESIDENT OF THE CONNECTICUT BANK & TRUST CO. OF HARTFORD, CONN. ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. Chairman and members of the committee, I am pleased to have this opportunity to discuss one possible solution to the problems confronting the Guaranteed Student Loan program with you. I am Harry J. Drolet, senior vice president of the Connecticut Bank and Trust Company of Hartford. I am testifying on behalf of the American Bankers Association.

As the largest single lender of guaranteed student loans bankers share the Congress' desire to insure all qualified Americans, regardless of income, the opportunity to better themselves through advanced education. Since this program began the Nation's banks, which hold less than 60 percent of the deposits in all depository institutions, have made more than 80 percent of all loans under the program.

Bankers are also aware, as is the Congress, of the decrease in the number of student loans made under the program in the past year. In an effort to find solutions to the problems that caused this decline representatives of the ABA, educational institutions, and State student loan officials testified before the Senate Subcommittee on Education and this subcommittee last year. Two major program problems identified at that time were the restrictions imposed by the needs test and the effects of inflation on family income.

The Senate has recently passed H.R. 12253 that would eliminate the needs test for interest subsidy on Guaranteed loans for students with an adjusted family income of less than $15,000. ABA president Rex J. Morthland voiced the association's support of this amendment in a letter to Sen. Pell (see attachment).

At this time the ABA would also like to voice its approval of the bill proposed by the Chairman O'Hara and other members of this committee which would make the needs test even more realistic by taking into account the effects inflation has had on the amount of money a family can realistically afford to contribute for educational purposes. This bill, calls for eliminating the needs test for students whose adjusted family income is less than $20,000 if no more than $2,000 per year is [illegible].

We believe it essential that in the making of student loan policy that the increase in inflation be taken into consideration. Since the program began in November of 1965, the dividing line for obtaining interest subsidy, with modification by the 1972 Education Amendments has been an adjusted family income of $15,000.

By December of 1973, the Consumer Price Index had risen 45.6%. This means a family would require $21,840 per year to have the same buying power as with $15,000 in November 1965.

The cost of education has risen along with the cost of living. The average cost of tuition, room and board at private 4-year colleges rose from $2,712 a year in 1970 to $3,281 today. The costs at public institutions have also risen. This situation is also reflected in the increased average in annual loan size under the Guaranteed Student Loan Program. In 1969 the guaranteed student loans averaged $872 while the average for today has risen to $1,245. (see attached table from the U.S. Office of Education.)

H.R. 12523 takes all these factors into consideration. The bill injects the needed degree of stability into the program by incorporating extension of the special interest allowance to be coterminous with the other provisions of the program in 1975.

While we support these programs, we do not see them as the long range solutions to the problem of financing education for middle income families. They are, however, the only legislative solutions to these problems that have been offered to date.

Now would seem to be the appropriate time for financial aid officers, students, lenders and Congressional staffs to sit down and work out a program that was acceptable to all parties. Our working together on a new program, at this time, will insure the student that he is not burdened with a debt he cannot manage, the Financial Aid Officer with a program he can't administer, and the lender with a program that will allow him to best serve the needs of the community. The end result must be a program beneficial to the student and manageable for the educator, lender and government.

In addition we would like to see the following recommendations incorporated into any program or regulations the Congress might wish to consider:

1. a reduction in the massive amount of paperwork and red tape involved in processing and dispersing these loans.

2. a reduction in the period between a loan going into default and final repayment

3. a requirement that the Office of Education develop some uniform guidelines relative to the collection process.

4. and finally we would like to suggest that the amendments to the higher Education Act of 1965, as amended, take effect one month after enactment to minimize disruptions in the processing of loans for the coming academic year.

At this time we would like to address ourselves to the question of why banks are not making more non-subsidized loans. This question has been raised by members of Congress numerous times.

Taxable deferred income and the cost of collecting the interest on the loans are the prime reasons. It simply cost more to collect periodic interest on the non-subsidized loans from individual students. Interest on subsidized loans is collected by submitting a single periodic statement to the Office of Education.

Few lenders are willing to forego the earnings on interest that would otherwise have to be paid and at the same time be obliged to pay income tax on this deferred income.

Another question that frequently arises is why are loans not made above the amount recommended by the Financial Aid Officer.

The law currently states students must meet a needs test to be eligible for a subsidized loan. All the information concerning the needs test and what the family can reasonably be expected to contribute to the students education is in the hands of the Financial Aid Officer. The lender, since he does not have access to this confidential information, is reluctant to change the professional recommendation of the Financial Aid Officer. We do know, however, that in certain cases where the lender is familiar with the financial circumstances of the student and/or his family, that the amount of loans have been increased where warranted. Another factor that mediates against the increase in the amount of loans by either lender or Financial Aid Officer is the concern that a government audit will one day challenge the validity of the increase.

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., February 4, 1974.

HON. CLAIBORNE PELL,
U.S. SENATE,
WASHINGTON, D.C.

DEAR SENATOR PELL: The American Bankers Association was pleased that the Committee on Labor and Public Welfare unanimously adopted an amendment to H.R. 12253 related to the guaranteed student loan program.

As you know, in previous testimony before your Subcommittee, the Association recommended that the restrictive needs test that was being applied to the guaranteed student loan program be either drastically revised or eliminated for those students whose adjusted family income is below $15,000.

The recent action taken by the Committee on this matter will be of great assistance to students and lenders in obtaining and dispensing the subsidized student loans.

If this legislation passes the Congress, we hope that the Office of Education will issue, with the utmost speed, the necessary rules and regulations to carry out the intention of Congress.

Your continuing interest in this program is greatly appreciated.

Sincerely,

REX J. MORTHLAND.

	Overall	Federal	Guarantee agency
Fiscal year:			
1967	$752		$752
1969	872	$875	870
1971	965	993	942
1973	1,101	1,092	1,111
1974	1,245	1,242	1,248

Source: U.S. Office of Education.

Mr. O'HARA. Mr. Drolet, you have been sitting through the testimony of the other witnesses. You have heard some of the questions that have been raised. I know, too, that your association and its members are concerned about defaults of any kind of loans you might make.

Apparently, though, you do not feel that the legislation proposed would have a harmful effect on the default rate. I wonder if you could elaborate.

Mr. DROLET. No, we don't. As a matter of fact, I find it quite interesting that several of the witnesses before our appearance indicated that the needs test currently in existence in some fashion or other is conducive to counseling and therefore avoidance of a high default rate.

My suggestion is almost the converse in that the needs test ends up with a very impersonal computer prepared maximum recommendation for loan entitlement which does not really tell the student how much he can afford to pay back when payback time comes. It merely attempts to tell him how much he really needs to add to what assets and income he presently has to get through 4 years of college.

Mr. O'Hara. I really think that you have an excellent statement here. I am especially impressed by the way in which you recognize at the bottom of page 2 of your statement, while you support these programs you don't see them as the long-range solutions to the problems of financing education for middle-income families, but they are, however, the only legislative solutions to these problems that have been offered to date.

I think that is a very accurate description of the situation in which we find ourselves. You think it would be an appropriate time for financial aid officers, student leaders, and congressional staff to sit down and work out a program acceptable to all parties. I certainly agree with that.

I certainly don't think that we are presently in a situation where we can say we have arrived at any kind of sensible and rational and workable solution for the increasingly difficult financial problems that students from middle-income families are facing in continuing their education. Also your specific suggestions are good.

My feeling is that the legislation before us would sort of open up the bottleneck that we created. It would now give you an opportunity, without the delays and the paperwork and this mechanical application formula, to sit down with the prospective borrower and have your student loan officer say to the prospective borrower, "All right, let's see what is the situation." And review that borrower's position, the borrower's need, make sure the borrower understands how the program operates, and what his obligations are under the program, and then make an assessment whether you ought to make the loan, and then make the loan.

It seems to me that the puts the discretion back where it ought to be, and that is with the lender and not with some mechanical formulation.

Does that make sense to you?

Mr. Drolet. Indeed it does. It certainly does. One of the things we would like to call to the committee's attention is our concern about what caused the crisis in 1972 and what caused the crisis again in 1973, at least it was a major contributor, the untimely changes in regulations.

We feel that if changes are to be made, and we strongly recommend that those that are proposed in fact be enacted, that the changes become effective as soon as possible before we get into the paper flow for academic 1974–75 which starts in late May, early June. That was our big problem in 1972. It was a problem again in 1973.

Mr. O'Hara. I don't suppose there is any magic date for that? You can't say, "If we don't have this by the Ides of March", or any such thing?

Mr. Drolet. No. I suggest that April is a pretty dormant month in terms of activity. If we had enough advance notice of 30 to 60 days maximum, that would be quite adequate.

Mr. O'Hara. That is my notion, that this is sort of a quick fix type of thing, that nobody recognizes this as a permanent solution. It is just something that can be done rather quickly and that will help ease the problem and then it gives us a little time to determine in a more thorough manner what other things might be done.

Mr. DROLET. Precisely.

Mr. O'HARA. Thank you very much, Mr. Drolet. I found your testimony succinct and to the point and well thought out. I wish to compliment you on it.

Thank you very much.

I am advised by Bob Andringa that it is the intention of several of the staff to remain after the hearing is adjourned, which will be in about 45 seconds now, and if there are those present, witnesses and others who would like to discuss the problem in an informal way with the members of the staff, they will have that opportunity to do so immediately upon the adjournment of the subcommittee.

The subcommittee will now stand adjourned to meet tomorrow morning at 10 a.m. in this room. We will be hearing the Commissioner of Education and Mr. James Jung of the Wisconsin Higher Education Aids Board.

[Whereupon, at 11:27 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Friday, Feb. 15, 1974.]

HIGHER EDUCATION LOAN PROGRAMS

FRIDAY, FEBRUARY 15, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to recess, in room 2257, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Dellenback, and Steiger.

Members also present: Representatives Grasso and Broomfield.

Also present: Jim Harrison, staff director; Al Franklin, counsel; Elnora Teets, clerk; and Robert C. Andringa, minority staff director.

Mr. O'Hara. The subcommittee will come to order.

Today we will conclude our hearings on H. R. 12523 and related legislation designed to eliminate needs analysis from the guaranteed loan program in the case of families with adjusted family incomes of less than $20,000 who are seeking loans of not more than $2,000.

As I have told previous witnesses, we have been primarily interested in taking testimony on the needs test question but we do so without foreclosing in any way cosnideration of changes of greater magnitude in the loan programs. Certainly, the needs test is not the only problem confronting students, families, banks, or program administrators, but it has been a major problem.

The Commissioner is assured that if he wishes to testify on other matters affecting the loan program that we will give careful attention to his testimony although we are primarily interested at this time in the needs test question.

Before going into our testimony today, I will, with unanimous consent, have inserted in the record a copy of a letter I received last week from Under Secretary Carlucci regarding this proposal now before us.

[The letter referred to above follows:]

The Under Secretary of Health, Education, and Welfare,
Washington, D.C., February 5, 1974.

Hon. James G. O'Hara,
House of Representatives,
Washington, D.C.

Dear Mr. O'Hara: This letter is to express the Administration's views on H.R. 12253 as it was reported by the Senate Committee on Labor and Public Welfare on January 30. We are pleased with the extension of Section 414(b) of the General Education Provisions Act in the House passed version of H.R. 12253. We consider that prompt extension of the Tydings Amendment is vitally necessary to our nation's State and local school agencies so that they can program their Federal educational funds rationally and effectively.

However, we strongly oppose the provision added to H.R. 12253 by the Senate Committee which changes the rules for interest subsidies on Federally guaranteed student loans. The change would make loans of up to $2,500 a year eligible for a 7% interest subsidy while a student was in school and for certain subsequent periods if he came from a family with "adjusted family income" of less than $15,000 which often means over $20,000 in actual income.

We fully share the concern that loan funds be readily available to all students, including those who have had difficulty obtaining loans this last year. As you know, the President has instructed the Secretaries of the Treasury and of Health, Education, and Welfare to contact lenders under the program to get them to reaffirm their commitment to the Nation's educational needs by making adequate funds available for student loans.

Over the last few months we have been actively engaged in efforts to find out from lenders just what changes in the way the program works would lead them to increase their student loans. Where management changes are called for, necessary action will be taken immediately. Where legislative action appears to be needed, it will be requested.

What is crucial here is to make sure that adequate loan funds are available, and not to expand the universe of those eligible for the 7% subsidy. At times during the past year these two issues seemed to be linked, because many lenders used the criteria for subsidy eligibility as a basis for rationing the funds they were willing to invest in the program.

We believe that a move to a near-total subsidy of this program may not be effective and is certainly premature.

We are convinced that the leveling off in loan volume is not primarily the result of the institution of a needs test but rather is largely due to such complex, inter-related factors as: "Tight" money; Lender concerns over the illiquidity of student loans; and Initial problems in setting up loan servicing practices to accommodate more unsubsidized loans.

Additional steps are being taken to assure adequate program growth: Operations of the Student Loan Marketing Association will both increase the supply of lendable funds and increase liquidity of the student loan paper in lender portfolios; and Paperwork can and will be simplified to reduce lender administrative costs.

It concerns me that precipitate action now to expand interest subsidies on the scale proposed would impose a majjor constraint on actions which could be taken in revising this program to increase benefits to both low and middle income students.

We believe that upcoming hearings this spring on the expiring GSLP legislation would be the proper place to consider thoroughly the proposed changes in Guaranteed Student Loan subsidies. The bulk of the loans for this school year have already been made; the lending season for next fall begins in July. Changes made this spring can be put in place in time for this summer's lending cycle. When there is sufficient time for full consideration of alternatives, as there is in this case, it seems logical and rational to proceed deliberately rather than hastily.

We therefore strongly urge that this rider be deleted from H.R. 12253.

We have been advised by the Office of Management and Budget that enactment of this bill with the change in the rules for interest subsidies would not be consistent with the Administration's objectives.

Sincerely,

FRANK C. CARLUCCI,
Under Secretary.

Mr. O'HARA. Our first witnesses today will be the Commissioner of Education, John Ottina, accompanied by Peter Muirhead, Deputy Commissioner for Higher Education; and Jim Moore, Director, Division of Insured Loans; and Charles Cook, Deputy Assistant Secretary for Legislation in Education.

Mr. Commissioner, we will be very pleased to hear the recommendations of the Office of Education and of the Department and we are delighted to have you appearing before us today.

STATEMENT OF HON. JOHN OTTINA, COMMISSIONER OF EDUCATION; ACCOMPANIED BY PETER MUIRHEAD, DEPUTY COMMISSIONER FOR HIGHER EDUCATION; JAMES MOORE, DIRECTOR, DIVISION OF INSURED LOANS; AND CHARLES COOKE, DEPUTY ASSISTANT SECRETARY FOR LEGISLATION (EDUCATION)

Mr. OTTINA. Mr. Chairman, and members of the subcommittee, it is indeed a pleasure to appear before you again.

We would like to discuss with you this morning, Mr. Chairman, not only H.R. 12523, a measure which would change the basis for interest subsidies under the federally insured student loan program, but, as your earlier statement indicated, a wider range of issues.

We believe that there are two principles which should guide the Federal role in student aid:

First, Federal grant aid should be predictably and uniformly available to all needy students. Such grant aid should be available in amounts necessary to put a post-secondary education within reach of these students and should serve to equalize available resources.

Second, the Federal Government has a role in making student loan funds available to all students. Student loans are an essential vehicle for giving all students a choice of high-cost as well as low-cost educational programs. They have, moreover, a legitimate and important role in enabling families—of all income levels—to spread the costs of education over time to avoid concentrating them in the few years in which a student is actually in college.

Given this view of the role of grants and loans, Federal programs in the two areas should obviously be complementary. Next year, the Congress will need to review all Federal student aid programs with these interrelationships in mind. It is in that context that we would prefer to address the student loan issues which are the subject of your hearing this morning.

We fully understand, as you do, also, the circumstances which make such a postponement difficult. However, in considering my suggestions this morning, I hope you will relate them to a larger view of the Federal role in student aid.

The question of the desirability or undesirability of interest subsidiaries is really not a question of whether needy students should receive benefits, but how subsidies and assistance should be provided. We adhere to the principle that, in the long run, subsidies should be provided through the grant mechanism.

Over the last year, both you and I have received a large number of letters from students and their parents, complaining of the difficulty in obtaining student loans. The evidence of a decline in loan volume is by no means entirely anecdotal. We now project that total dollar volume for the current school year may be 15 percent below last year's.

The comparison between loan volume of this year and last year becomes more difficult because there were a number of effects that occurred with the introduction of the education Amendments of 1972.

So that, the comparison that we are suggesting is a comparison now that goes prior to the effects that were taking place. If we compare the last 11 months to the same months prior to the effect of the amendments, the statistic that should be used is that the number of loans has decreased by 27 percent and the dollar volume by 16 percent.

Looking at this in terms of the last 4 months only, actually the number of loans has increased by 2 percent over that same period and the dollar volume by 24 percent.

We have included for your use a chart that attempts to show month-by-month comparisons of the loans by dollar volume over the preceding 3 to 4 fiscal years.

The loan shortage that we are talking about has several causes. We think that primarily it is due to the prevalence of high interest rates generally which have created opportunity for competitively high rates of return to lenders on other types of loans.

We feel that many lenders have already accumulated a large portfolio of student loans and are reluctant to add to that portfolio.

There are a number of administrative problems in the program which have discouraged the lenders from making more loans; and the problem of illiquidity that we have talked about before.

This shortage has had special impact on middle-income families. It is fairly clear that lenders have used the means test requirement enacted by the Congress in 1972 to ration the funds they felt they could commit to the program. Students not eligible for an interest subsidy under the means test criteria have frequently been turned away not only without a subsidy, but also without any loan at all.

The complaints which you and I have received have centered on the needs test since it seems to have had this duel consequence.

These parents have complained that they do have need—for a loan. But, let's be careful to read the message they are sending us correctly.

I think it is highly significant that many parents who complain about the needs test also say, "I don't want a handout; I just want a loan." The need they rightly claim is for the opportunity to budget higher education costs over a number of years—not for a subsidy.

There are two general approaches to dealing with this problem. On the one hand, we can seek a solution that is based on tying availability of loans with eligibility for a subsidy. That is the kind of solution recommended in your bill, Mr. Chairman.

But there is another general approach to the problem that would be based on untying subsidy eligibility and loan access. It is this second kind of approach which I would recommend and which I will discuss later.

Let's look first at the approach represented by H.R. 12523.

Since students who have not been able to prove need by a means test have had difficulty in getting loans this year, it would simply take away the means test requirement for most students. A student from a family with up to $20,000 adjusted income—and that means up to and perhaps in excess of $25,000 in many cases—would get a fully subsidized loan of up to $2,000 a year.

Statistics that we have from the Postsecondary Finance Commission quoting a study by the U.S. Bureau of the Census of October 1972, show that over 80 percent of the age group of 18 to 24 come from families with gross incomes of under $15,000; that from $15,000 to $25,000, another 12.7 percent are added; and essentially that above $25,000 gross income only 6.5 percent of the age group is in that distribution.

If we very quickly turn that into college enrollment for the year 1972–1973, 11.1 percent of college undergraduates come from those families.

So that, the two greatly change the effect of the needs test.

The approach sounds attractive. It sounds like cutting through a thicket of red tape so that most students could readily get loans, but we should take a hard look at some of the consequences:

There is a distinct possibility that many more students would borrow (or borrow more) because they were attracted by the interest subsidy—the famous "red Corvette" problem that we talked about before. This would artificially increase demand for loan funds and make any shortage of lendable funds worse.

As a result, the needy students who now do get loans might lose them to other students who do not need the subsidy.

The budget costs could prove staggering and amount to from one to several hundred million dollars a year in additional subsidy payments over the present level. Given limited budget funds available for student assistance, this is liable to restrict our capacity to provide other forms of student assistance.

In particular, future expansion of grant type programs could be seriously hampered. As I testified earlier, it could mean perhaps as many as 90 percent of all students attending postsecondary institutions could be eligible for a subsidy.

Given consequences like those above, I believe we may be able to come to grips with the problem more effectively by pursuing the second alternative—uncoupling loan access from subsidy eligibility.

This alternative proceeds on the premise that grants should be grants and loans should be loans. Grants should be subject to a needs test as a matter of elementary equity. But loans need not be, since they would no longer be tied to a grant in the form of an interest subsidy.

We therefore propose to move toward the goal of simplifying loan eligibility drastically. There would be no needs test or the related paper work and "hassle" when students seek to obtain loans. Rather, we would put the question of subsidy eligibility in the place where it belongs—in the determination of a student's grant eligibility.

A student would get a grant toward meeting interest expenses just as he obtains grant aid in meeting other expenses. In the case of the Basic Grants prorgam, interest costs on student loans would be completely covered. We are prepared to take such action upon enactment of the necessary changes in the Basic Grants legislation, if the Congress concurs in the general approach I am recommending.

Some of the advantages of our proposal are:

All students would be treated alike in obtaining loans, middle-class students along with low-income students.

Lenders would no longer use a needs test as a reason for not giving a loan.

Middle-income students would get what they are really seeking—a chance to borrow and spread costs over time.

Needy students would get what they really need—both the loan and aid under the basic grants program to help meet their interest costs.

Lenders would be willing to make more loan funds available because they would be relieved of any part in a means test determinations which has added costly paperwork and has thereby made lending under the program less worthwhile.

I do not want to pretend for a moment that this proposal would match dollar for dollar the benefits students receive under the present program—if they receive a loan. It is worth remembering there that a student who fails to get a loan gets no benefit at all from the present subsidy. There are four classes of students we need to think about here:

First, there are those students who are ineligible for basic grants but who would now be eligible for an interest subsidy because of the particular needs test used by individual schools for the Federal insured student loan program, which are different from the needs tests used in the BOG program.

As we have testified before your committee, the BOG family contributions schedule and needs test and the CSS and ACT very closely approximate each other especially with the new changes that we have suggested and which you have concurred in for the upcoming current year.

We do, however, believe that for this very, very small percentage of students who would be affected that this should not deter us from this basic reform that would benefit all students.

Second, for those students who are eligible for basic grants, we are proposing a legislative proposal which would provide a dollar-for-dollar increase in their basic grants awards to overcome the present limitation of the one-half-of-cost rule or the $1,400 ceiling. We propose to reprogram the necessary funds required from the guaranteed student loan appropriation.

As you are aware, we have that broken down into the amount that subsidizes the prior year as well as new loans. For 1975, we are anticipating in our guaranteed student loan program about $37.3 million required for the subsidy portion of new loans.

Third, there are those students who will be juniors and seniors in college next fall who, because of the restrictions, would not be eligible for a basic grant, regardless of need, because only first- and second-year students are eligible at all.

The problem here would, of course, be eliminated when basic grants are fully funded, which we have again proposed for the fall of 1975. Until then, however, we would propose continuation of the present needs test arrangement for determining interest subsidy eligibility for third- and fourth-year students.

This would delay full impact of the reform we propose, but it would relieve lenders of the administrative burden now imposed by the needs test as a criterion. We are interested in working with the subcommittee on such a solution to the interim problem.

Fourth, there are the graduate and professional students who are not, of course, included in the basic grants program. We would propose that these students—indeed, any student who is ineligible for a basic grant—be allowed the cost of meeting interest payments in determining their cost of attendance for the purposes of the Federal insured student loan program.

We believe that, with appropriate arrangements such as those above, our proposal for uncoupling the issue of loan availability from that of subsidy eligibility is by far the best way to make the guaranteed student loan program a reliable way to meet educational costs.

But you will recall that I earlier emphasized that much of the problem of loan access encountered during the last year is attributable to a shortfall in lendable funds.

We wish now to put before your subcommittee a number of proposals which would attack the problem of the shortage of loan funds at this source—the willingness of lenders to place their funds in student loans.

First, it is important to realize how much our proposal for "uncoupling" loans from subsidies will help. The added paper work created by a means test, however, fair, has considerably added to the costs which lenders must consider in deciding on their level of participation in the student loan program. By allowing all students to be treated alike, loan origination costs would drop.

Second, we would propose to use the special allowance authority granted by the Emergency Student Loan Act of 1969 to assure lenders of a more competitive rate of return on student loans for the long term.

Historically, and there is a graph attached to the testimony, the special allowance rate plus the basic 7-percent rate have averaged about 1¾ percentage points above the yield of 5-year Treasury issues.

We would propose, in the future, to maintain the special allowance rate so as to provide for a significantly wider spread between these rates. In other words, we propose to compensate lenders more adequately both for their costs of money and the costs of servicing guaranteed student loans under the statutory rubric of assuring an equitable rate.

In order to assure that more competitive rates can be maintained, we are proposing to increase the maximum total interest rate, including the special allowance limit, from 10 percent to 11 percent, while holding the rate to the student at 7 percent.

Third, as you know, the Student Loan Marketing Association can have a major role to play in increasing the liquidity and supply of student loans. Let me now reaffirm our support for a level of Sally Mae operations that will provide wider and increasing access to loans.

Fourth, we would propose to guarantee not only principal but also interest on a student loan where, under a State agency program, a lender agrees to defer interest until the student graduates and his loan goes into repayment status.

Present law provides such a guarantee in States where the Office of Education guarantees loans directly, but not with respect to state agency programs. Obviously, we would guarantee that only for the Federal program.

Fifth, we propose to permit lenders to compound interest quarterly at the 7-percent standard rate on loans where the lender defers interest payments until school is completed. This proposal is, of course, a minor one, costing a student little.

Based on a loan of $1,000 for each of 4 years, starting the first of July, this would mean about $2 the first year, $9 the second year, $22 the third year, and a little less than $40 the fourth year. We would wish, however, to eliminate even such minor obstacles to fuller lender participation in the student loan program.

The above recommendations for uncoupling loans and subsidies, for helping students to meet interest costs, and for increasing lender incentives should be viewed in combination as the best solution we can devise at this time to the problem of loan access which has borne with special severity on middle-income students. We think it is a sound program. It deliberately does not deal with ways to measure the need of students for grant funds, where a means test is clearly indispensable.

As I said before, the proper context for looking again at the standards of need in Federal student aid programs is the general revision of the higher education statutes that this committee will be considering a year from now.

In addition to the foregoing proposals, I would like, in my testimony this morning, to address another problem connected with the guaranteed student loan program—the additional cost of graduate and professional education.

Many graduate students are not able to take full advantage of the guaranteed student loan program because they have borrowed up to their limit of $10,000 during their undergraduate years and early graduate studies.

Examples are the financing of health professions education—medical and dental training—but this could also be true of law schools and other graduate education.

Students who have borrowed close to $10,000 as undergraduates should be able to continue to take advantage of the guaranteed student loan program for their professional education.

Accordingly, we propose to raise the statutory loan ceiling for graduate students from $10,000 to $25,000 and to adjust the annual borrowing limitation and the length of the payback period as necessary.

Other members of HEW have discussed this proposal with other committees who are concerned with manpower development in the health professions because we are attempting in that area to propose changes to the expiring legislation.

In the area of defaults, Mr. Chairman, this committee is aware that we are seeking to address many aspects of the problem simultaneously.

We are dealing with a mechanism that needs to be tightened up at many places to run smoothly. Many relatively small adjustments need to be made.

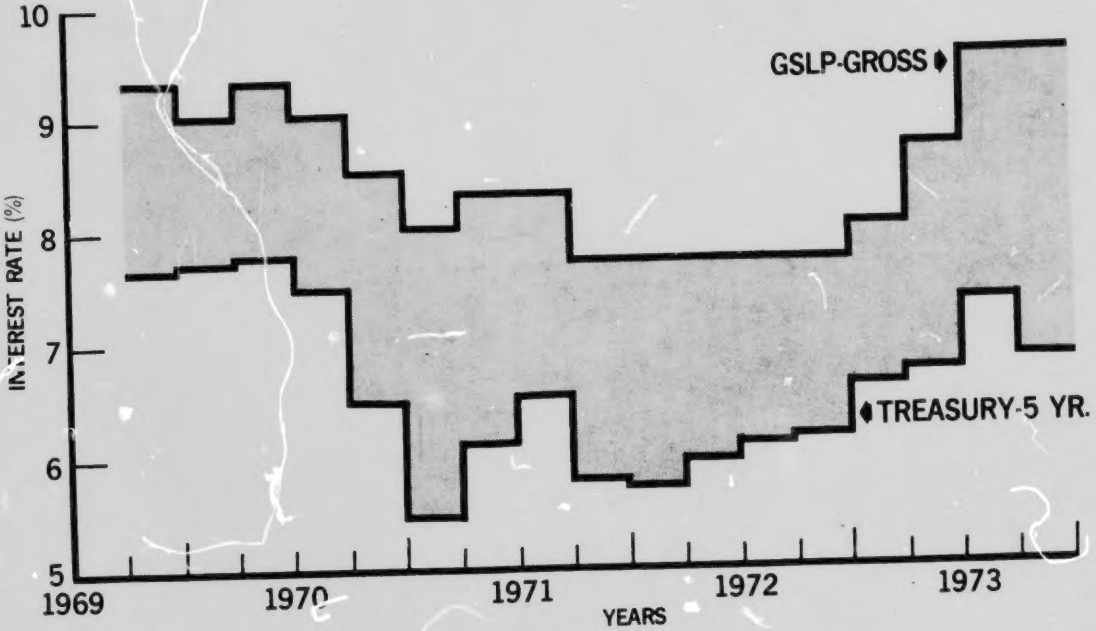
We are clarifying standards for lender involvement in the process of originating a loan and we are better defining and communicating a higher standard of "due diligence" in collecting on defaulted loans before a claim can be presented to the Federal Government. We are adding substantially to the Office of Education's loan collections staff.

We also have some technical amendments intended to deal with the default problem which we will include with our draft bill.

Mr. Chairman, I would welcome any questions from your subcommittee on any of the preceding matters at this time.

[The chart referred to follows:]

COMPARISON YIELD ON
GUARANTEED STUDENT LOANS/5YEAR TREASURY NOTES



Mr. O'HARA. Thank you very much, Mr. Commissioner.

Before I turn the questioning over to Mr. Dellenback, which I will do right away, I was hoping you could clarify for me one point of your testimony that I did not understand.

Your second point on page 6. I don't understand how that works.

Mr. OTTINA. We are proposing, Mr. Chairman, that in conjunction with this committee and others we would devise a scheme to treat interest for those who would borrow as a complete dollar-for-dollar increase and that, if necessary, we would adjust other rules to make it possible to honor the interest portions at a full 100 percent value.

Mr. O'HARA. In other words, if a student eligible for full BOG was attending an institution that cost $4,000 a year, or whatever, he got his full $1,400, and then he was, in addition, paying $200 interest that year, you would make him eligible for $1,600?

Mr. OTTINA. That is the essence of the proposal, Mr. Chairman.

Mr. O'HARA. Mr. Dellenback, do you have any questions?

Mr. DELLENBACK. Yes, Mr. Chairman, thank you.

Thank you, Mr. Commissioner. Your testimony has been helpful.

I would appreciate your helping me further by making clear what it is you will propose in the draft bill that you are going to be sending up soon, and second, what it is that you are proposing to this subcommittee that we defer in the way of action now.

I am not sure, as I listened to your testimony, whether you are suggesting that we not act now on the needs test and make this part of the overall consideration of what we do next year when we deal with extensions, and, on the other hand, what it is that you are going to propose to this subcommittee that we act on immediately.

Mr. OTTINA. Mr. Dellenback, we would urge this committee to look at the proposal that we are presenting now. We would have hoped under more favorable circumstances to have worked a longer period of time in developing this proposal and working with this subcommittee.

However, the press of events before us, which I think we all understand, has led us to come before you this morning and suggest that instead of acting on the $15,000 as proposed in the Senate or $20,000 need test elimination as proposed by the bill introduced by the Chairman, that we consider a different approach to the problem, and that was the approach that I outlined.

Mr. DELLENBACK. You are suggesting that we consider that approach now?

Mr. OTTINA. Yes, sir; we are.

Mr. DELLENBACK. On several occasions, in your testimony, you make reference to the situation which will face this subcommittee next year.

I wanted to be clear that what you are proposing to us in the way of action this morning is not the suggestion that we wait until next year to do these things. Rather, you are proposing to do these things now in lieu of the simple changing of the means test.

Mr. OTTINA. You are right.

Mr. DELLENBACK. In reading through your testimony, then, the basic thrust of it says that if we merely raise the limit of the means test—whether we go to $15,000 or $20,000—and stop at that point, we will be dealing with only a portion of the problem and will not have really reached the best result in the overall treatment of the students in making loans available to them?

Do I read the testimony correctly?

Mr. OTTINA. Yes; we are only addressing part of the problem.

In that approach, we feel that we are neglecting the problem of the lender in several points that I mentioned. But also of equal concern, we are using the loan mechanism to provide a subsidy which would be an automatic eligibility almost, as I read the proposed bill, to somewhere between 80 and 90 percent of all students who are enrolled in post-secondary education.

In that regard, it seems to us that the criterion of need is not really being applied when over 80 to 90 percent are eligible.

If we are talking about need for a grant, which subsidy is, then a better vehicle to address that is through our grant program and the question of need for a grant program is better addressed through the types of assessment of needs that we have there.

The problem that we foresee, as I mentioned, Mr. Dellenback, is that this program could very quickly usurp a large amount of our resources which we believe could be better used in the grant need programs.

Mr. DELLENBACK. That was a phase of the matter that I was going to ask further about because that concerns me.

I feel the frustrations that I am sure the Chairman does when we see that additional dollars should be made available for other aspects of student assistance.

I recognize that, whether there is any absolute limit set on available dollars in the way of a budget request or in the way of something that our own appropriations committee sets as a limit, for practical purposes there is a ceiling on how many dollars will be used. Thus, it is a case of how many dollars will be budgeted within that limit and how they can best be used.

If we had limitless dollars, I would feel far less concerned with the mechanism used, because we could do everything. We could make subsidies available, increase BOG to the full limit, and go ahead with work-study increases which I feel we very much should do. I will state in passing that that is one of the areas in the proposed budget of 1975 that is of concern to me. We do not have enough work-study. In any event, we face a practical overall limit.

I was concerned with your testimony on page 4 where you talk in terms of the potential budget cost of this increasing subsidy and what it would do not in making the subsidy available, but what it would mean in practical effects in reducing other kinds of aid.

In that line, your figures are rather vague, Commissioner, when you say, "The budget costs could prove staggering and amount to from one to several hundred million dollars a year in additional subsidy payments over the present level."

Have you been able to run any statistical explorations on that and give us a more accurate figure as to what it would possibly amount to?

Mr. OTTINA. If we assume for a moment the passage of the $20,000 gross adjusted provision which this subcommittee is considering and we look at the enrollment in post-secondary education of approximately 10 million students, and assume that about 75 percent of them are full time and therefore would have a sizeable investment in post-secondary education yielding about 7.5 million, and assume that about 90 percent of them would be eligible and that the loan would be $2,000, the loan volume could reach over $13 billion and the subsidy on that for 1 year could be about $900 million.

That is without regard to the 3 percent or 4 percent special allowance.

Now, as years progress and we are paying prior years' subsidies, that amount could skyrocket to $2 or perhaps $3 billion. Now, that is taking a very liberal set of assumptions.

One could take a very conservative set of assumptions and get a much smaller number.

Mr. DELLENBACK. There could be an outer limit of possibility which would be measured in terms of billions instead of millions?

Mr. OTTINA. It could be.

Our young people attending post-secondary institutions have a great incentive to obtain an interest-free loan for the 4 to 5 years or whatever period that they are attending post-secondary education so that there are incentives which would drive them to do this.

So, it is not inconceivable to think that a very, very high percentage who would be eligible would obtain or try to obtain the maximum loan.

Now, clearly, there are some limits in terms of the capacity of the lender and there will be some natural countervailing forces there that would come into play. That is why the estimate is as vague as it is in the testimony, Mr. Dellenback.

Mr. DELLENBACK. From what you have now said, you are not just talking from one to several hundred million dollars; you are going beyond even several hundred million dollars if you are talking about that kind of figure. The present budgetary figure is what?

Mr. OTTINA. It is $377 million, as I recall, and it is broken down into various subcomponents: $88 in 1974, $88.7 for defaults, $190.7 for prior year subsidy, $31.3 for new subsidy, $85 million for special allowance, and $3 million for death and disability.

The correct total is $399 million.

So that, about $220 million of it is for the subsidy portion.

Mr. DELLENBACK. You are saying that the $220 million figure could escalate dramatically?

Mr. OTTINA. Yes.

Mr. DELLENBACK. This is at a time when BOG is getting—this year at least—something over $400 million; NDSL is getting $200 million; and work-study is getting into the $280 million figure.

You are talking about potentially, if we work against the ceiling, every one of those programs being hurt. We could face the possibility of finding ourselves bombed by this kind of subsidy.

Is that correct?

Mr. OTTINA. Yes.

Again, let me say that the number I calculated with you in terms of the billion or $2 or $3 billion is the outside range.

Mr. DELLENBACK. Let us take that as the worst possible assumption from the sense of your taking everything from this standpoint being a maximum. I want to see what the possibilities are.

Repeating something I said earlier, one of the things that concerns me is that we work as a practical matter against the pressure of other demands on the Congress for dollars. We are not going to be able to get all that some of us would like to have for student assistance or for other facets of education.

So, I see a real need to balanc eoff what we do against what we are not going to be able to do if we go ahead with one particular program.

May I ask just a few questions on this default phase of things? You give little attention to it.

I am concerned about the pressures on students that might be increased if we wipe out the subsidy. There are those who are really in need of subsidy. Any one of us—whether in any sort of hard needs test or not—would welcome it as a parent or as a student.

I am more concerned about those who might be injured because they really need subsidy.

As I read your testimony, and let me be sure I understand it correctly, you would try to protect against injury to those really in need of the subsidy in that although you would wipe out an interest subsidy, in applying for grant aid those students would be given additional aid as grant aid which would, in effect, make up for the subsidy they have lost.

Is this true?

Mr. OTTINA. That is absolutely correct, Mr. Dellenback.

Mr. DELLENBACK. So that, for the really needy you are telling us that they will not be injured. Those who need the subsidy, they will be covered in order to really "hack" it economically.

Mr. OTTINA. That is correct.

I think we should note that for all students there is a degree of subsidy in making the loan attractive at the 7 percent rate rather than prevailing interest rates. So that there is a degree of attractiveness for even the borrower who does not have the need.

Mr. DELLENBACK. Again we start playing with that word "need", and we run into a semantic jungle.

What you are saying on that point is that in maintaining the 7 percent rate, all people who borrow will be benefited. The special allowance limitation being held at 11 percent and holding the rate to the student at 7 percent, that would apply to all?

Mr. OTTINA. That is correct.

Mr. DELLENBACK. Not just to those who would get grant aid?

Mr. OTTINA. That is correct.

Mr. DELLENBACK. Back on default.

When you started talking about deferral of interest and noted there would be, not too much the first year, more the second year, and more the third year and fourth year you used the $1,000 base figure. That is probably inadequate but you used $1,000—and those figures are not in your written testimony but you used something like $2, $9, $22, and $41 interest figures, if I recall correctly.

Mr. OTTINA. Yes.

Mr. DELLENBACK. Those are each year's figures; they are not cumulative?

Mr. OTTINA. They are each year's figures.

Mr. DELLENBACK. There would be $74 over 4 years on $1,000?

Mr. OTTINA. That would be the effect of the compounding quarterly versus not compounding.

Mr. DELLENBACK. If they borrowed $8,000, instead of $4,000, it would, of course, double this?

Mr. OTTINA. Yes. What we are also suggesting is that interest be considered a cost of education and we would allow that in the total to be borrowed, so that in the case of the loan that we are talking about paying, one would have funds to pay that interest, where if one were on a quarterly payment plan or deferral plan it would not be necessary to do that.

What we are trying to do is provide options in this proposal to the lender. As we talk to lenders, we get a difference of opinion, as I am sure you do, where many of them feel that it is important to establish a relationship between the student and the lender during even the period of school, and many have felt that it would be advantageous in connection with the default problem actually to have a steady correspondence and a steady payment, though very low, during the period of school, perhaps even less than interest only; but let me use interest only for illustrative purposes, be paid on a quarterly basis, so that the idea of a relationship between the lender and the student be established and so that it be set up in an orderly fashion.

Many lenders feel that that idea would help greatly in the default problem.

We do have—not relative to the default problem—we do have gross statistics which show that for nonsubsidized loans most of the lenders do deal with them on a quarterly basis. About 53.9 percent of the unsubsidized loans are on a quarterly basis.

So that, an approach like that may not be too serious an inconvenience for the student and yet establish a kind of relationship which would be helpful in the overall default problem.

Mr. DELLENBACK. When we were first dealing with the matter of loan ceilings in the subcommittee some years ago, and later on in the conference committee, we were concerned to a significant degree about the default problem. We were concerned, quite frankly, about walking that hard line between making enough money available so that a student could get an education that he or she wanted and would otherwise not easily be able to obtain if we hadn't made the loan ceiling high enough, and yet not so high that the student walks out of an undergraduate career burdened with an overwhelming debt. We talked, as I am sure you will recall, Dr. Muirhead, in terms of a young man and young woman both walking out with maximum loans and all of a sudden they start a family with a tremendous debt.

In recalling that conversation, when I look at the portion of your testimony that talks about proposing to raise the statutory loan ceiling for graduate students to $25,000, are we not here walking into a potential albatross to hang around the necks of young people?

Mr. OTTINA. Mr. Dellenback, I think the basis has to be a selective basis and it has to be essentially in those areas where extended professional schooling requires that kind of investment on the part of the student.

As I mentioned in the testimony, we would also suggest that the period of repayment be lengthened to 15 years so that it would be more affordable by the young couple.

Mr. DELLENBACK. Stretching the loan period does two things at the same time: It decreases the burden in any given month, and it increases the total amount that is paid over the life of the loan in getting rid of the obligation.

Mr. OTTINA. That is correct.

Mr. DELLENBACK. Again, I express my concern about the ceiling being so high that any two young people, should they go to graduate school together, could be loaded down with a tremendous burden.

I am interested in how you arrived at the $25,000 figure instead of the $20,000 figure or the $17,942 figure, or anything else.

Mr. OTTINA. As we looked at the current rates that our colleges and universities are charging and the need for subsistence and other costs of education over the period of time that it takes to prepare a doctor or someone in the professions that we have talked about, it seemed as if that were about the amount of money that could be both reasonably expected to be incurred and also looking at the expected earnings at the end of it which could reasonably be expected to be paid at the end of time.

Mr. DELLENBACK. So you went through a computation on this basis instead of just saying we ought to make it a considerably higher figure, then?

Mr. OTTINA. We did do that. Again, I would not attest to the science used in that computation.

Mr. DELLENBACK. I suspect you will find considerable variations.

You are saying, then, you would not visualize every graduate student going to this figure, but you are setting an outer limit?

Mr. OTTINA. Yes.

Mr. DELLENBACK. Then it gets into the counseling conferences that some of us feel are important. Do you propose to do anything to improve counseling along the line? Is there anything that you would propose at this time?

Mr. OTTINA. This proposal does not address that aspect, Mr. Dellenback, but very clearly in any situation in which someone is borrowing money the aspects of counseling are a vital and integral part of it.

Commercial lenders from my experience do, when they lend money, provide often that kind of service, especially the traditional banks that one would deal with in the case of a home loan or other aspects. They are very careful to see that the obligations are understood and the expenses are understood and the time period that is being talked about is understood.

As we talk about the proposals that we are not only advancing here but the other proposal, that aspect of counseling is one in all of the proposals being considered by this subcommittee which is critical.

Very clearly, we must devote more attention to informing the student borrower and working with him to determine what his needs are and what his obligations are. It seems to me that is a given, regardless of the approach one takes.

Mr. DELLENBACK. By not covering it in your testimony this morning, you are not downgrading it. Instead, you are saying it is another aspect you are not addressing yourself to?

Mr. OTTINA. That is correct.

Mr. DELLENBACK. At another time, we will have a chance to explore it. I suppose we could go on but the chairman has been generous with the 5-minute rule already.

Let me end by saying that, as I interpret the thrust of what you are telling this subcommittee on the matter of the needs test, you are saying two particular things to us:

One, you don't think that the question of a needs test should be addressed most desirably by itself. The best way to do it from the standpoint of the benefit that you are trying to reach and that we are trying to reach with this kind of approach of making loans available is better addressed if one ties several other aspects in with it. We would have a shortfall if we tried to deal with just one aspect of it and did not deal with the rest of it.

Second, insofar as that one aspect of what should we do with the needs test, you propose something that goes beyond the legislation that we are technically considering. You are not talking about raising a limit to any point—$10,000, $15,000, or $20,000, or anywhere else.You are suggesting to us that as part of this package we eliminate any needs test whatsoever. So, you are taking a step beyond the present issue, in one sense. In another sense, you are saying at the same time it should best be developed as part of the total picture.

Mr. OTTINA. That is right.

Mr. DELLENBACK. Thank you very much.

Thank you Mr. Chairman.

Mr. O'HARA. Mr. Ottina, on the first page of your testimony, you state two very interesting principles.

You say, first, Federal grant aid should be available to all needy students predictably and uniformly. Such grant aid should be available in amounts necessary to put a post-secondary education within reach of those students and should serve to equalize available resources.

Second, the student loans are the preferred vehicle for giving all students a choice of high-cost as well as low-cost educational programs.

That is quite an interesting approach and one that I am sure the committee would like to consider when you have more detailed recommendations. But that would require, I suppose, changing the BOG program into one that ignores the question of whether the student is attending a high-cost or a low-cost institution.

In other words, the implication of that is a flat size grant varied only by family contribution. Let's take BOG right now.

If you are going to an institution for which the cost is more than $2,800 a year you might conceivably get $1,400 if the appropriations were adequate. But if you were going to the local community college where the total cost didn't run up to $2,800 per year, even though you were just as needy, you would not get up to $1,400, you would get somthing quite a bit less.

I think you have made a very interesting proposal here, that you not vary your grant according to the cost of the institution, that the institutional cost problem be taken care of with the loans. Do I properly understand it?

Mr. OTTINA. Within limits, Mr. Chairman. The qualification within limits is that there is a spread of institutions that cost varied amounts to attend. That is the base that the BOG's in this philosophy cover, or cover some percentage of, and that basis broadened then by the availability of loans. So that it is not a junior college cost versus something else, but a little bit fuller than that to begin with and then a slight broadening from that point of view.

Mr. O'Hara. I think that those two principles are pretty good principles. I hope you will be thinking about those. Where you have twins, one of whom is going to the local community college, and the other—let's make them triplets. The second of whom is going to the State university and a third who is attending a high cost private institution. BOG would provide different amounts of help to each.

Mr. Ottina. That is correct.

I am not sure that it should, but that is something that you should be thinking about.

Mr. O'Hara. Further, let's disabuse you of any notion that the committee is going to wait until next year to consider student assistance programs generally. We may be doing that this year. We hope to get out a bill this year. So you can sort of accelerate your schedule.

Mr. Ottina. I am delighted and pleased to hear that, Mr. Chairman.

Mr. O'Hara. I was very much interested in your analysis of the reason for the low volume of student loans this year. You set it forth on page 2. In the first place, you project that the dollar volume will only be down 15 percent. We have seen some larger figures.

Do you have a figure of what you also project that the number of loans would be down?

Mr. Ottina. Yes, 27 percent. In the last 4-month period the actual number of loans was up 2 percent. Again, Mr. Chairman, the basis of comparisons is one that I want to express. We do have a month-by-month comparison that we will be pleased to provide you for the record. At one time it did show 30 and 40 percent decreases in volume.

Mr. O'Hara. You essentially ascribe the decreases in number and volume to four reasons: the prevalence of high interest rates, the fact that lenders feel their portfolios have enough student loans right now, administrative problems in the program. I assume the needs test will be included in that category.

Mr. Ottina. Indeed.

Mr. O'Hara. And illiquidity in lender portfolios. Would you agree that the needs test is the major factor, or do you think the other things are more important in that consideration?

Mr. Ottina. I have in the last several months had a number of discussions with a number of lending institutions about this. All of the elements seem to have different weightings with different lenders.

Very clearly, the needs test does create a problem for them. It creates a problem in a multiplicity of ways. One is that they no longer feel, for example, that they are in the decisionmaking chair. I believe you and I heard that testimony together one day. It is without doubt a problem, but again I don't think it is the only problem. The effect of the amendment that you are offering, to raise it to $20,000, would in essence remove it from consideration because so many would fall below that hurdle that it would go a great deal toward eliminating the hassle that I referred to earlier because you have excluded such a large percentage of the population. On the other hand, it does have the other problems that I referred to earlier.

Mr. O'HARA. You feel those other problems, the high interest rate problem and the proportion of student loans in bank portfolios and the illiquidity problems, those would not be cured at all by elimination of the needs test but would still retard the volume and size?

Mr. OTTINA. I don't believe it would retard it in the sense that it would be below what we have been talking about. It would certainly stimulate more loans and a higher dollar volume than we are seeing. I don't believe that it would really open the market to a degree that I think we would all like to see become available to all students in post-secondary education. There are still other problems, is what I am saying, Mr. Chairman, that need to be addressed.

Some of those are listed on this piece of paper. So the effect of moving it to $15,000 or $20,000 would increase both the number and the dollar volume.

Mr. MUIRHEAD. May I supplement that for just a moment in pursuing what would be the impact of the needs test. You and I know we were dreadfully concerned at one point this year when it was apparent that the program was as much as 30 percent to 35 percent below a comparable period that we could measure. I think it is fair to point out that as a result of some of the actions that this committee generated, in that you encouraged, indeed induced us to move the institutions themselves, to take a much more realistic look at the financial means test that they were applying, and you also encouraged us and directed us in part to do the same thing with the lenders, so that they in turn would use what authority they did have. I think it is interesting to note that in the waning months of this year, the last 4 months, that the program has come back to its former volume, indeed, in some aspects it is a little higher than it was for any comparable period.

I do think, too, that the other points that the Commissioner has shared with you here concerning the shortage of loan funds would be addressed in this proposal that we are suggesting to you in that we would be trying to understand better what the problem of the banker is, whether or not his overhead costs are higher than the present interest and special allowance payments would cover.

We are permitting some flexibility in there. If it does develop that those overhead costs are indeed restrictive, then the special allowance could cover it. Hopefully, we have the work of the Sally Mae operation which possibly could get at the problem of illiquidity.

Mr. O'HARA. You see, what I have difficulty understanding is that if you project that the total dollar volume of guaranteed loans for the current school year is only going to be 15 percent below last year, and if you conclude, as you have concluded, that the needs test is responsible for only part of that 15 percent drop, how come removing the needs test is going to result in a cost of $1 billion?

Mr. OTTINA. The needs test for which I was doing the arithmetic for $1 billion is a needs test that, as I understood it, assumed that any student coming from a family of gross adjusted income of $20,000 or less would be eligible for the full $2,000 loan.

Mr. O'HARA. Then if instead of doing that all we did was go back to the old law which was in essence 15–15, then the cost would be minimal.

Mr. OTTINA. It would be different, it would exclude a different segment of the population.

Mr. O'HARA. It would be minimal. If the volume is going to be down 15 percent and the needs test is only responsible for a part of that, then obviously the increase in cost would be something in the magnitude of what, 5 percent, by going to 15–15?

Mr. OTTINA. I believe it would be slightly more than 5 percent.

Mr. O'HARA. You can't have it both ways. If we are only down 15 percent now and if the needs test is only a part, the reason for a part of that 15 percent, then obviously it would be a very low cost to go back up to 15–15.

Mr. OTTINA. I am not disagreeing that it would be a low cost, I am not sure it would be 5 percent. I would guess it would be closer to 10 percent in terms of dollars.

Let me point out on the statistics I was quoting you from the Postsecondary Finance Commission, if we took $15,000 instead of the $20,000, that we would raise the level from the amount that I quoted to about 35 percent, which would be above the $15,000 level. So, we have shifted greatly the percentage that would be assumed to be in need because of the $15,000 rule.

The other element of it of course is that we are expanding the bank's loan here and that would add some to the volume and some to the cost. Now, clearly you can argue with the objectives that we proposed to you, $15,000 is better than $20,000, because it would enable us to use the difference in funds in the need areas that we have talked about.

Mr. O'HARA. I can't understand the way you get at your figures. If you say that the volume is down 15 percent from a previous period, in which in effect we had a 15–15 system, and that the needs test was only responsible for part of that, then obviously the increase in cost by going back to 15–15 would be something less than 15 percent of the current volume. So let us add on to the number of new eligibles we have if we go to 20. According to the figures that minority counsel has been using, that represents around 12 percent or 13 percent of the student population that would be caught in the shift from 15 to 20. So really, you would not be adding very many eligibles. So if you take your own figures with respect to how much of the current dropoff is due to the needs test and then we add to it the new populations and then project the same percentages of applicants among them that we have among the others, there is no way in the world you can arrive at a cost of several hundred million dollars for that change; and not only that, but you have been talking with Mr. Dellenback in terms of that being on the conservative side.

I don't see how you can equate those things.

Mr. OTTINA. Our present cost, as I testified earlier, is $2 to $200 million.

Mr. O'HARA. Let us say that 10 of that 15 percent drop off is due to the needs test.

Mr. OTTINA. I just can not imagine that 10 percent would be adequate if we are talking about the $20,000 rule, which I assume you were. However, I could not tell from your question, Mr. Chairman.

Mr. O'HARA. Let's talk first about going back to the old law, 15–15. You say you only had a drop of 15 percent and only part of it is due to the needs test, to the change.

Mr. OTTINA. Our estimate for the 15–15 rule is about $15 million.

Mr. O'HARA. How much?

Mr. OTTINA. About $15 million, for new loan originations, first year cost for new loans. As I was pointing out earlier, the first year new loans, second year, third year, depending on the length of time that the student is in a subsidized category. So it can be as much as 5 years. If you add to that the second year eligibles and the third year eligibles, the costs build up over time.

Mr. O'HARA. What are your total first year costs?

Mr. OTTINA. Our total first year costs?

Mr. O'HARA. Right now you are spending $300 million.

Mr. OTTINA. That is correct, about $300 million. I did have a breakout that I read a moment ago. I will be pleased to find that again for you.

My recollection was that it was about $220 million for subsidy, about $31 million for new loans, and $190 for old loans.

Mr. O'HARA. How much for the subsidy?

Mr. OTTINA. $220 million for fiscal year 1974, the year we are in; $190 million of it is for old loans, $31 million of it is for new loans. That is the 7 percent portion that we have been discussing, only.

Mr. DELLENBACK. Would the gentlemen yield?

Mr. O'HARA. Yes, I will be happy to.

Mr. DELLENBACK. I join the chairman in being troubled about this. When you gave us the larger figures, were you talking about a 7-year charge or talking about an accumulated charge?

Mr. OTTINA. When I went through the mental exercise?

Mr. DELLENBACK. When you went up into a billion dollars.

Mr. OTTINA. I was talking about the effect of a program, that it would build up to those in 2 or 3 years, with the prior charges and the new charges, not first year charges, very clearly.

Mr. DELLENBACK. If you took $15 million and projected it over the 5 years, you would have $30 million the second, $45 million the third, $60 million the fourth, and $75 million the fifth. When you add those together you add up just in that one projection to several hundred million dollars.

Mr. OTTINA. Yes. That was not the statistic that I was quoting but, yes, what you did is correct. That is the way it would build. And to the degree that you open it you would accumulate more rapidly because you do pay prior year loans as well as current year loans under the program. As we note, many of them are 5 years because there is a grace period at the end of the 4-year completion.

So for those obtaining a BA it is often a 5-year period that we are talking about subsidizing the amount of money for.

Mr. O'HARA. Then you are talking about an added cost for the annual appropriations if we were to go back to the old law, 15–15, of what, $15 million?

Mr. OTTINA. About $15 million for the first year and about $30 million for the second year.

Mr. O'HARA. Then what would you project if we go to 20 the first year?

Mr. OTTINA. I think there are so many assumptions that one would have to make that it is very hard, as I said, to project that. I would guess that we are talking about at least $2 to $300 million at the end of the second year. But again there are many things that we are assuming do or do not happen as one makes that kind of projection.

Mr. O'HARA. Well, if going back to 15–15 would only cost $15 million, and the eligible population has only expanded by another 12 or 13 percent of the student body by going to the $20,000, why does the cost suddenly go up from 15 to figures in the hundred-million-dollar category?

Mr. OTTINA. Let me see if I can do some quick mental arithmetic.

Mr. O'HARA. Let your staff work on that. You and I will talk about another aspect of it.

Mr. OTTINA. Let's say we expand the population by 10 percent? Is that what you said?

Mr. O'HARA. Twelve, I guess.

Mr. OTTINA. It is easier to multiply by 10. It will help your case, sir.

Mr. O'HARA. All right.

Mr. OTTINA. There are 10 million students. So that would be about a million students. The average loan is $2,000, which is the amount that is provided.

Mr. O'HARA. The maximum possible under those circumstances. I don't think the size of the average loan would change.

Mr. OTTINA. $1,500.

Mr. O'HARA. What is the current average size?

Mr. OTTINA. $1,250.

Mr. MUIRHEAD. I think the point should be made, Mr. Chairman, that in the figure that we are projecting for the amount of the loan subsidy that would be on the budget as a look down the road, and if we were to take the $20,000 figure, which is one of the proposals, we would then be providing subsidy for perhaps close to 89 or 90 percent of the student population.

Our contention is that that becomes a heavy drain upon the budget, that it would then be in competition for funds that are needed to serve low-income students.

The whole thrust of our proposal, Mr. Chairman, I think is that in the loan program there is more than one kind of need. There is a need in the loan program; a very definite need for capital availability over a long period of time at a reasonable rate of interest. That is the most pressing need in the loan program. That is the problem which has caused us the most concern. Our proposal would address itself to that point and then in terms of the need for a subsidy we would say that that is not for all students but for those students who are in financial need.

Mr. O'HARA. In any event, under the old law which we changed in 1972, that was in effect 15–15. If we were going to go back to that you would consider that it would involve an increase in volume of something less than 15 percent.

By the way, I don't believe that you people ever recommended departing from that. It is my recollection of the amendment that put the needs test into the guaranteed loan program that it was not part of your recommendations prior to the 1972 legislation, and it was a congressional initiative that did it. You were apparently satisfied with it then.

Am I mistaken about that?

Mr. OTTINA. I'm sorry, I don't remember.

Mr. O'HARA. You know, it is so, is it not, that you people didn't recommend the change in the needs analysis? It came about as a result of congressional initiative. You were satisfied with 15–15 when you came up to testify about the bill that became the 1972 amendments and there would be no great cost to return to 15–15. Your objections really are directed more than anything to the proposal that we go up to the $20,000 and $2,000.

Mr. MUIRHEAD. When the amendments in 1972 were before the committee we did support the concept of having a financial needs test for recipients of the loans, because we felt that was fairer than to have guaranteed loan students get an interest subsidy whereas students under the national defense student loan program have to pass a financial means test in order to get it.

Mr. O'HARA. Yes. But I think you supported it after it got in. It was not your proposal.

Mr. MUIRHEAD. But we supported it in principle because we felt there should be a financial means test for that student loan in the guaranteed loan program just as there was a financial means test under the NDSL program.

Mr. O'HARA. The history of the program is that loans without the interest subsidy have been a feature of the program from the beginning, and of course you are proposing that all loans be without interest subsidy now but the history of the program would suggest that lenders are not interested in making student loans without interest subsidy because they have never made any significant number of them, have they?

Mr. MUIRHEAD. The reasons are again multifold. Some lenders interpret the needs analysis to mean this is a needy student and therefore I make a loan. This is not a needy student so therefore I do not make a loan. Others find more attractive the payment scheme that is inherent in the subsidized loan because for the period of subsidization the Federal Government makes all payments. As I mentioned earlier, some lenders believe that that is part of the default problem and that should be taken care of.

Mr. O'HARA. That is very true, and I am concerned that your recommendations ignore that factor in estimating what the effect of the changes you would make would be.

Mr. MUIRHEAD. Ignore in what sense, Mr. Chairman.

Mr. O'HARA. You go on the assumption that if you make the changes that you recommend a large volume of loans will be available on an unsubsidized basis. That seems to me to be a dubious proposition. Before lenders have not expressed any great interest in loans to students, unsecured loans—I won't say unsecured; because of the guarantee you have quite a bit of security. But loans in which they would have to rely upon the borrowers themselves to make regular interest payments.

I think they have felt that the administrative costs of this, the general problems associated with it, have not made those attractive loans. They have been interested only when Uncle Sam was making the interest payment, one payment for the whole portfolio, one check covering the interest on all the loans outstanding, that they could rely on receiving every 3 months.

Mr. MUIRHEAD. I would not pretend to testify on behalf of the banks, but let me say even on the unsubsidized loans, after the subsidization period is over, they must collect them on a regular basis just as they do with other installment credit.

Mr. O'HARA. In our proposal we are saying that we understand that that is true and we are suggesting that the spread be increased and we are asking for an increase in the special allowance to make sure that we can maintain this spread that accounts for the differences that the banks would incur in such a program.

Again, the confusing element I have heard over and over again, there is confusion between who is needy and not, and who is making the decision. It seems to me what we are saying is that all the banks need to have is a certification that the student is enrolled in a postsecondary institution and then he exercises the normal paperwork that is required in making the loan.

It greatly simplifies because he is used to making loans, that is his business.

Mr. Ottina, we have another witness and I am going to have to leave before long. I want to give the other witness a chance to say his piece. I have another engagement today.

Let me just conclude by saying I think your proposals are very interesting and they are worthy of our consideration in this committee. I think the whole role of the loan program ought to be evaluated. The question, as I see it, is whether in the meantime we go back to the situation that existed prior to 1972 amendments or whether we leave in effect the situation that now exists with the 1972 amendments.

The only question, additional question, in my mind about the immediate problem is whether if you try to restore the status quo before the 1972 amendments you do it by going back to $15,000 and $1,500, or you do it by going back to those same two figures adjusted upwards for the increase in the cost of living and in the cost of education since the enactment of the student loan program, and that of course is the genesis of the $20,000–$2,000 proposal, simply adjust 15–15 to take account of those two changes.

That is the way I see the problem. I want you to know that I am sure that won't be the unanimous feeling on the subcommittee. Others will see it differently.

Mr. OTTINA. Mr. Chairman, let me respond to the statement. I am sure from the testimony you will recognize that our view will be that the context in which one would examine that would not be the context of 15–15 versus cost of living in either institutions or people but in the context of the basic question of need, because it is a subsidy you are providing, it is a grant you are providing, and that is the criterion.

Mr. O'HARA. I am not sure that I mind subsidizing college students. We subsidize everybody else in this country.

Mr. OTTINA. We concur in that. Otherwise, we would not have had the 7 percent maximum.

Mr. O'HARA. So it does not bother me. It really does not bother me that someone may get a loan on which we pay an interest subsidy for a limited period of time even though they are not among the worthy poor.

Mr. DELLENBACK. If the chairman will yield.

While we are making summations and comments on this, I would phrase it differently, and agree with what the chairman has said. I will go further than that, too—it bothers me if we do not help college students.

I firmly and aggressively say I think we would be derelict if we did not do so. My concern, and the thrust of my questions to the witness today, was how do we best do that when we have limited dollars. I want to see dollars, I want to see maximum dollars—more than we have put in. I want more for BOG, more for college work study, and more for the loan program. We need them not only just for the low income but for the middle income. We need it broadly.

What I am really worried about is recognizing, for practical purposes, we are going to have to have a limit. If we use a dollar for one program, or a million dollars or a hundred million dollars for one program, somewhere down that line of appropriations we are going to take a hundred million dollars off another program.

My only concern is that we use it to the maximum, Mr. Chairman. As I say, the principal thrust of my comment goes a step beyond what the chairman has said. I not only agree with the fact it does not bother me to subsidize, I affirmatively state it bothers me if we don't subsidize in the best way possible.

Mr. OTTINA. Because of your time may we submit for the record the cost estimates you asked for?

Mr. O'HARA. Yes, please do.

[Following are the cost estimates requested above:]

BACKGROUND

Our current budget estimate of $222,000,000 in interest assumes that of this amount, $31,300,000 is for interest on new loans.

The projected dollar amount of $1.050 billion was assumed to have about [illegible] percent non-subsidized ($892.5 million subsidized). The level of non-subsidized loans in prior years has been about 4 percent. Without the needs test, we would estimate that of this current projection, only 5 percent would be non-subsidized. First year interest costs would therefore equal $35.0 million, or an increase of only $3.7 million. However, the effect of the needs test has been to depress both the numbers of loans, hence the number of students who can obtain loans (27 percent under the comparable period under the prior law) as well as dollars (15 percent).

The lesser decrease in the dollar volume is because the average loan has increased (from $1,036 in FY 1972 to a current level of $1,250).

If we were to go back to the 15/15, we would assume at least an increase back to former levels or of 27 percent in numbers, to about 1,130,000, as compared to our current projection of 890,000.

At an average size of $1,250 this would amount to $1.4 billion.

We would assume that 5 percent is non-subsidized leaving $1.33 billion subsidized. The first year cost would equal $46.6 million or an increment of $15.3 million over the $31.3 million in this year's budget. The total incremental cost would be $275.4 million under 3 years of lending at this level, and the total cost would be $838.8 million.

If we were to go back to FY 72 levels, the number of loans, 1,256,000, at $1,250 would equal $1.57 billion with 5 percent non-subsidized leaving $1.50

billion subsidized. The total incremental cost would be $315.0 million, and the total cost would be $945.0 million.

Assuming the placement of the same level of loans for three years, the total and incremental cost under each assumption would run out as shown below. Neither of these assumptions gives weight to prior year loans (obligations existing under current and previous legislation—1966–1974). The attached table provides this data.

We would emphasize that these are assumed levels of lending, both numbers and loan size, and that these are conservative estimates since we would anticipate a return to at least former levels. We have no concrete basis for making firm projections on volume under the 15/15 proposal.

Assumptions for A and B.

Basic premise

The average life to loan in the interim/grace period is approximately 3.0 years. This period gives consideration to the mix of higher education and vocational educational loans and to the 9 and 12 month grace periods.

Additional assumptions for determining principal balance and cost factors.

First year

Loans are placed throughout the year. Interest is paid on all loans but at one-half the rate to account for uneven disbursement: Interest = 3.5 percent (on full principal).

Second and third years

All loans are on books a full year. Full interest is earned: Interest = 7.0 percent.

Fourth year

All loans are converted to repayment. Conversation occurs throughout the year. Interest is calculated as in first year to account for uneven conversion: Interest = 3.5 percent (on full principal).

INTEREST ON SUBSIDIZED GUARANTEED LOANS INCREMENTS UNDER ASSUMED LEVELS FOR 15/15 PROPOSAL

A. 1,130,000 loans. Average loan of $1,250 with assumed program level for 3 years. Total loans = $1.4 billion ($1.33 billion subsidized)

[Millions of dollars]

	1st year	2d year	3d year	4th year	5th year	6th year	Total
1st year's loans:							
Total	46.6	93.2	93.2	46.6			279.6
Increment	15.3	30.6	30.6	15.3			91.8
2d year's loans:							
Total		46.6	93.2	93.2	46.6		279.6
Increment		15.3	30.6	30.6	15.3		91.8
3d year's loans:							
Total			46.6	93.2	93.2	46.6	279.6
Increment			15.3	30.6	30.6	15.3	91.8
Total[1]	46.6	139.8	233.0	233.0	139.8	46.6	838.8
Increment over estimated for fiscal year 1974	15.3	45.9	76.5	76.5	45.9	15.3	275.4

B. 1,256,000 loans. Average loan of $1,250 with assumed program level for 3 years. Total loans equal $1.57 billion ($1.50 billion subsidized)

	1st year	2d year	3d year	4th year	5th year	6th year	Total
1st year's loans:							
Total	52.5	105.0	105.0	52.5			315.0
Increment	21.2	42.4	42.4	21.2			127.0
2d year's loans:							
Total		52.5	105.0	105.0	52.5		315.0
Increment		21.2	42.4	42.4	21.2		127.2
3d year's loans:							
Total			52.5	105.0	105.0	52.5	315.0
Increment			21.2	42.4	42.4	21.2	127.2
Total[1]	52.5	157.5	262.5	262.5	157.5	52.5	945.0
Increment over estimated for fiscal year 1974	21.2	63.6	106.0	106.0	63.6	21.2	381.6

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[1] Interest cost for new loans (first and carry-over years).

Mr. DELLENBACK. May I ask unanimous consent? We have a statement that it seems to me is relevant to this that was issued by the board of directors of the American Council on Education in January 1974 that deals with guaranteed student loans. It focuses on reexamination and deals directly with this matter of interest subsidy, and ends up saying it amounts to very little for the indivdual borrower and in total it represents a $310 million drain on the Treasury. It is something that might better be used in other aid programs.

Without reading the statement, I ask unanimous consent that it be made a part of the record of today's hearing.

Mr. O'HARA. Without objection it is so ordered.

Thank you very much, Mr. Ottina.

Mr. OTTINA. Thank you, Mr. Chairman.

[The statement referred to follows:]

GUARANTEED STUDENT LOANS

ACE believes that the time has come to reexamine the purpose of the Guaranteed Loan program. As it was originally conceived it was designed to meet the needs of middle and upper-middle income families who needed to spread educational costs over a number of years. Interest subsidy, other than that provided by the Federal guarantee to keep interest rates low, was not of major importance. Interest subsidy and the recently adopted needs test to determine eligibility for subsidy have assumed center stage, largely because of the shortage of direct subsidized NDSL funds. Recent economic conditions have made it almost impossible for students and parents willing to forego the subsidy to borrow through the program. For them availability of credit is far more important than the relatively small subsidy to which they would be entitled if they could demonstrate need. The banking community, working together with the Congress, Administration, and the educational community, must explore new ways of making that credit available. If they can be devised, serious consideration should be given to dropping entirely the interest subsidy feature of the guaranteed program. It amounts to very little to the individual borrower, yet in total it represents a $310 million drain on the Treasury, a sum that might better be used in other aid programs.

Mr. O'HARA. The chair now recognizes the gentlewoman from Connecticut, Mrs. Grasso, who wishes to make a statement before the subcommittee.

STATEMENT OF HON. ELLA T. GRASSO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mrs. GRASSO. Mr. Chairman, Federally guaranteed, subsidized student loans must be made more available for students from middle-income families in my State of Connecticut and throughout the Nation.

Families of college students are particularly hard hit by inflation that has driven college expenses, like so many other things, out of sight. Yet, the number of guaranteed student loans in Connecticut has declined 25 percent in the past 2 years due largely to restrictive program requirements. Chief among these requirements is the stringent needs test which all students must now pass to qualify for interest subsidies under the guaranteed student loan program.

H.R. 12523—the bill before you today—is an attempt to alleviate some of these problems. It is a measure that has my complete support, and I respectfully request prompt and favorable committee action on this important legislation.

As you know, Congress amended the Higher Education Act in 1972 with the aim of expanding the student loan program by abolishing the $15,000 limit on the family income of a student eligible for Federal interest subsidies on these loans. Instead, we established proof of need as the primary qualification for the subsidy which pays interest on a student's loan until 9 months after his college or graduate education is completed.

Unfortunately, however, the Department of Health, Education, and Welfare's interpretation of the 1972 amendments prevented many students, whose family income is between $10,000 and $15,000 annually, from participating in the subsidized student loan program. Moreover, this situation has affected not only subsidized student loans, but unsubsidized ones, as well. As you know, many banks have been unwilling to go through the expense and paperwork of collecting interest from students on the low-yield guaranteed loans without interest subsidies. The result has been a lessening in the availability of loan money for the student loan program.

The bill before us today would abolish the needs test requirement for students whose adjusted annual family income is $20,000 or less and who wish to borrow $2,000 or less in an academic year. In this way it would make the loans and interest subsidies more accessible to the students who need them.

This legislation is an important step toward providing more loan money for students from middle income families. We must ensure that Congress' intent to broaden the subsidized student loan program is carried out in time for the next academic year.

Mr. O'Hara. Thank you, Mrs. Grasso. The Chair now recognizes the distinguished gentleman from Michigan, Mr. Broomfield, who wishes to make a statement before the subcommittee.

TESTIMONY OF HON. WILLIAM S. BROOMFIELD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Broomfield. Mr. Chairman, I wish to commend the subcommittee for holding these most important hearings on legislation to make federally guaranteed loans more available to students from middle-income families. This is a very real problem, and I welcome the opportunity to speak out in favor of this bill to make the loan programs more equitable.

This great Nation of ours has prided itself on having an outstanding system of higher education that is available to persons of all walks of life. But that great system, Mr. Chairman, is fast becoming available only to the very rich and the very poor. The middle-income families, those who pay the bulk of all Federal income tax, are being priced right out of the market by the rising costs of higher education, and the inability of the Government to recognize their need for loan money to help meet those costs.

The present system that requires students from families with incomes of more than $15,000 to have their need for a college loan certified by their college is simply unrealistic in these times of inflation. Anyone who thinks that a family in the $10,000 to $20,000 range tryng to send a child to college is affluent is sadly mistaken.

Considering the rate of inflation in recent years, this $15,000 ceiling, is badly outdated. When it was first imposed in 1965, higher education, and everything else, cost much less. Now, in 1974, it takes nearly $22,000 to buy what $15,000 did 9 years ago. To retain this outdated ceiling figure in view of these statistics is grossly unfair to middle-income families.

Equally unfair is the needs analysis system used to determine the amount of need for students from families in the $10,000-to $15,000-income range. This system was intended to help make loans more available by removing the income test for families earning less than $15,000 a year. Instead, it has made the loans harder to receive by substituting a rigorous analysis of both income and assets in place of the size-of-income test. This income and assets test includes such items as credit purchases, home improvements, and mortgage payments, while ignoring that all those things represent added financial burdens on a family.

The result has been that families already saddled with these financial burdens are often refused loan help because this system determines their need not to be great enough.

The sons and daughters of middle-income families are as deserving of a college education as those from other backgrounds. Their parents have shouldered the burden of the Federal tax structure for years. It only seems fair that the Government should respond to their genuine need for college loans by reevaluating the loan program. I urge the subcommittee to take prompt and favorable action on this bill, so that our system of higher education can be truly available to all people.

Mr. O'Hara. Thank you, Mr. Broomfield. Our next and final witness for today is Mr. James A. Jung, who is executive secretary of the Higher Educational Aids Board, State of Wisconsin. Mr. Jung will be accompanied by Janet Maciejewski, who is student coordinator of the Wisconsin Higher Educational Aids Board.

Mr. Jung, we will be happy to hear from you.

STATEMENT OF JAMES A. JUNG, EXECUTIVE SECRETARY, HIGHER EDUCATIONAL AIDS BOARD, STATE OF WISCONSIN; ACCOMPANIED BY JANET MACIEJEWSKI, STUDENT COORDINATOR, WISCONSIN HIGHER EDUCATIONAL AIDS BOARD AND RICHARD JOHNSTON, DEPUTY EXECUTIVE SECRETARY

Mr. Jung. Thank you, Mr. Chairman. I am also accompanied by Mr. Richard Johnston, my deputy.

Mr. Chairman, distinguished members of the Education Subcommittee: It is a pleasure for me to be with you today as you deliberate over the guaranteed student loan program. The key function of the Board I serve is administration of Wisconsin's system of financial aids to students. This system, of course, includes the guaranteed student loan program, which, in our State, and I feel throughout the United States, is in considerable need of repair and, perhaps, reconstruction.

The committee has already heard extensive testimony and is, I am sure, well aware of the problems as well as the virtues of the guaranteed student loan program as it is presently constructed. My remarks then will be directed toward suggesting a direction of change for the guaranteed student loan program which would, in my opinion, make it more responsive to the student populations of today and tomorrow.

The guaranteed student loan program has become a primary component of the nation's student financial aids structure. Therefore, to totally separate discussion of it from the broader issues of student finance is, in my judgment, to guarantee a distorted result. For approximately 2 years staff discussions concerning the problems of student finance have been under way in Wisconsin. The Wisconsin Guaranteed Higher Education Plan which is attached as part of my testimony is a product of those discussions.

My Board has endorsed the plan (WGHEP) in concept and has directed the staff to continue developing it for future Board consideration. In addition, the other higher education agencies in Wisconsin as well as a committee of the legislature has the plan under study. Numbers and data on which WGHEP is based is Wisconsin data, but I think it reasonable to assume that the general picture for most States would be similar to Wisconsin. I am raising this matter with you because I believe that these deliberations and WGHEP have direct relevance to the issues before you.

At this point, two things are clear in my judgment:

1. The solution to the student financing problem must be a joint State-Federal effort; and 2. The guaranteed student loan program is an important part of that solution.

While the hour is late, I think the time is now for the committee to set into motion a change in direction of the guaranteed student loan program which would ultimately result in a Federal program which would achieve the following objectives:

1. Recognize the new 18-year-old age of majority: The new 18-year-old age of majority which is rapidly sweeping the country essentially changes the Nation's postsecondary education systems from child-oriented systems to adult-oriented systems. The legal implications of this phenomenon are yet to be determined; but the policy implications can be viewed as an opportunity to make at least some of the existing student financial aid programs more responsive.

Traditional needs analysis systems are particularly affronting to the middleclass taxpayers for they essentially tell, order, middleclass parents to come up with a certain amount of money. Their feelings, wishes, and desires, are not a part of the equation. By recognizing the 18-year-old age of majority, only student financial resources would be used in need determination, thus providing more freedom to both parents and what are now adult students.

2. Progressively tax future income streams of students rather than continue the present procedure of regressively taxing future income streams: Conventional student loan programs regressively tax future incomes of students in that, no matter what the future income of a student is, a constant repayment is required. This has the effect that at a time when income is lowest, the highest percentage of that income is required to support repayment. As income increases, the percentage decreases. Progressively taxing future incomes requires a payment obligation directly related to the level of the future income of the

student. As individual student debt increases, the regressive nature of conventional student loan programs becomes more acute.

3. Establish a State-Federal relationship which is a complementary partnership in pursuit of commonly held objectives: The financing of postsecondary education is a joint responsibility between the State and Federal Governments. While there is a State and Federal relationship, I fear that candor requires me to describe that relationship most aptly as being like a bad marriage held together for economic reasons and for the sake of the children. The children have grown up by virtue of the new 18-year-old age of majority, and I suggest that this fact ought to be seized as an opportunity to establish a healthy and mutually responsive partnership between the States and the Federal Government.

4. Provide equity and access to all students, including those from middleclass backgrounds: Equity and access to postsecondary education for all people in a commonly held objective. However, I think there is some merit to the charge that oftentimes there is more rhetoric than substance supporting this objective. Some of the literature suggests that the middle class is carrying the burden of the rich as well as the poor in financing postsecondary education. As educational costs keep rising the crunch of the middle class becomes tighter. Something has to give, and in the not-too-distant future it might well be the person from a middle-class background who finds unacceptably high financial barriers to a postsecondary education. To alleviate this problem and pressure, particularly in light of the increasing competition for the tax dollar at both the Federal and State levels, it would seem that subsidies and opportunities must be targeted to insure equal access and equity for all people. This is not the case now, Mr. Chairman.

5. Establish a program which is insulated from short-term fluctuations of the money market: The existing guaranteed student loan program is immediately affected by the fluctuations of the money market. This problem creates uncertainty for people as well as ongoing problems of availability, et cetera. A program as important to the nation as is the guaranteed student loan program ought to be free of these pressures.

6. Establish a program that enables and provides incentives for people to remain in the program: Defaulting under the present guaranteed student loan program is a problem that promises to become bigger in the future. The default problem is exacerbated by the regressive tax feature of conventional loan programs already noted, the steady increase of individual student debt and multiple borrowing. To me it is clear that there are built into the present structure incentives for students to drop out—to default. I submit, Mr. Chairman, that unless positive incentives are provided by the student financing structure, we are courting fiscal disaster.

I would like to now, Mr. Chairman, outline the basic features of a guaranteed student loan program which is consistent with the objectives just outlined and suggest a course of action.

1. Establish the guaranteed student loan program as an income-contingent program: Despite the generous increases in grant support on the part of both the State and Federal Governments, the fact

remains that there is and will continue to be dependence on student loans as a primary component of the Nation's student financial support structure. As was pointed out earlier, conventional student loan programs are forms of regressively taxing future incomes of students. An income-contingent program achieves the objective of progressively taxing future incomes.

2. Establish a joint State-Federal interest subsidy program during repayment: Interest on loans represents a significant cost center. The present Federal in-school interest subsidy program is an important and necessary component of the present guaranteed student loan program. However, it is a poorly targeted subsidy. In fact, it is not targeted at all. I would therefore suggest that a joint State-Federal interest subsidy be provided during the repayment period which would have the effect of directly targeting the subsidy to those students who need it as reflected by income. A corollary of this suggestion would be removing or significantly reducing the existing in-school interest subsidy and adding their cost to principal. Cauton: I would strongly urge the necessity of insuring through the proposed State-Federal interest-subsidy program that a minimum of 20 percent of whatever a student pays in any one year be applied to reduce principal and that the interest owed in any one year is paid.

3. Provide to the State principal and interest guarantees in order that The states would be free to use as capital, the most sacred of funds, State trust funds: Capital to support a program of this magnitude is a significant issue. Most, if not all, States have trust funds, a portion of which could be made available for this purpose if and only if they could be 100 percent protected and with a guaranteed reasonable rate of return. Under this program, the Student Loan Marketing Association, Sallie Mae, becomes an important alternative to States for a capital resource.

4. Provide that at the end of 25 years any amount that was not repayed by the student through the program would be forgiven: Based on past experience, the vast majority of students participating in this program would repay their advances untler it. However, there will be a minority who for good reason will not achieve a sufficiently high future income stream to completely repay. Fairness and reason suggest that at the end of 25 years whatever amount that remains should be forgiven.

5. Provide for State administration. How to implement: In addition to any technical changes you are considering, add a provision which allows and encourages States to move toward a revised program. This additional provision would allow States to establish a State plan for a revised guaranteed student loan program to be concurred in by the Office of Education. This plan would provide the following:

1. Outline the administration of the program at the State level.
2. Outline the source of capital for the program and State share of interest subsidy.
3. Outline a specific repayment schedule based on net taxable income of the participant after leaving school. The repayment schedule would be consistent with guidelines established by OE.
4. Provide for a maximum repayment period of 25 years.

5. Provide for an after-school-interest subsidy divided equally between State and Federal Govermnent based on 8 percent or market rate, as determined by OE, whichever is lower, and that all interest owed in any one year shall be paid—The existing in-school interest subsidy would be eliminated.

6. Provide that at least 20 percent of any payment made by a participant in any one year would be applied to principal.

7. Provide that the Federal Government pay to the States any remaining principal owed at the end of 25 years.

8. Establish a maximum advance under the program based on the financial need of the participant. Parental resources available would be excluded.

9. Provide that those students having loans under the existing guaranteed student loan program would be eligible for participation in the revised program, but not the after-school-interest subsidy program.

The enabling provision should have two other elements: 1. Provide that States wishing to take advantage of this option would receive an allowance for administration based on each participant and an initial sum for necessary startup costs upon acceptance of the State plan; 2. provide for some form of congressional review before a State may implement a revised program.

I fully recognize that what I have presented is but a skeleton outline with perhaps more questions raised than answered. However, what I have raised is not new. It has been in the literature and under public discussion for years. There exists throughout the country much expertise that is available to quickly dot the i's and cross the t's of the program just outlined if you provide the direction. And, by quick, Mr. Chairman, I do not mean months. I mean weeks, and if necessary, days, to put together the necessary amendment to existing legislation which would allow States to move in the direction outlined.

Mr. Chairman, members of the committee, I submit that further study at this point is to obfuscate the obvious, and I plead that you seize the initiative and act now.

Mr. O'HARA. Thank you very much, Mr. Jung.

Mr. STEIGER. Mr. Chairman, may I ask if it is permissible for a nonmember of the subcommittee to ask that the complete statement be made a part of the record, along with all of the charts and tables that accompany it?

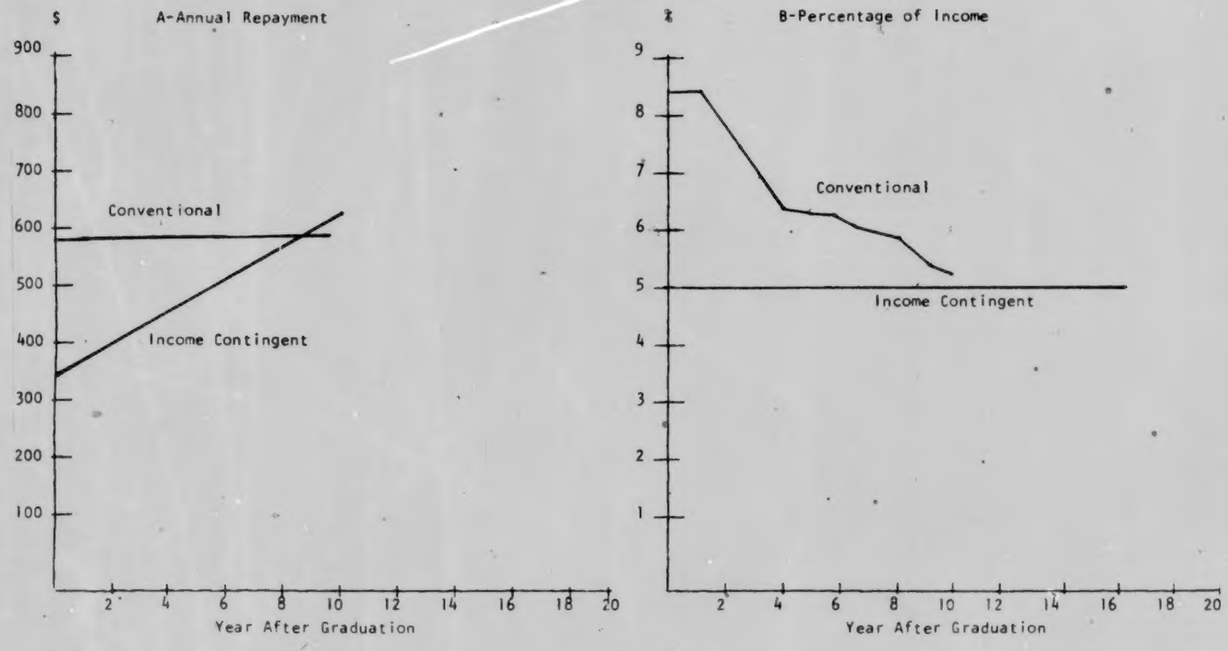
Mr. O'HARA. Without objection, it is so ordered.

I am even going to let the nonmember ask questions.

[The charts and tables referred to follow:]

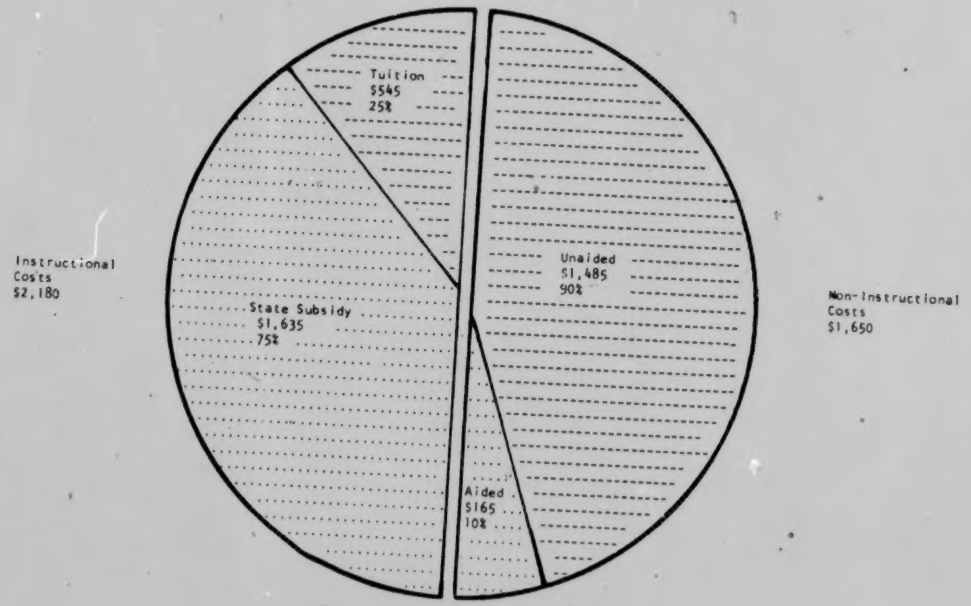
Repayment of Conventional and Income Contingent Loans

Loan amount $4,000 at 7%



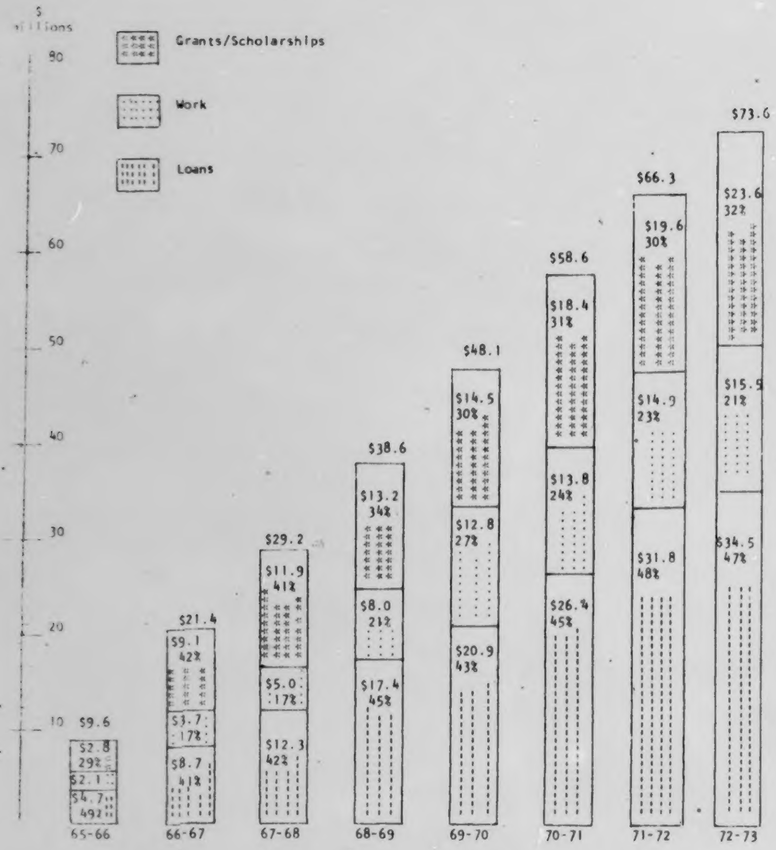
COMPONENTS OF EDUCATIONAL COSTS
1972-73

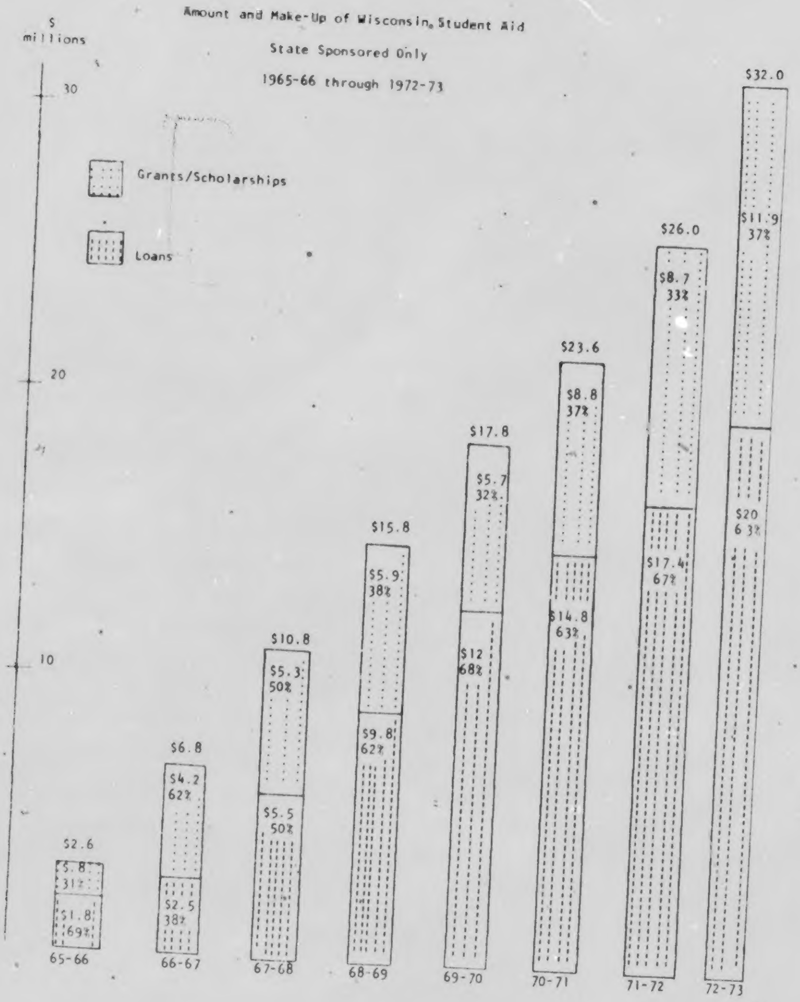
Total Costs $3,830.



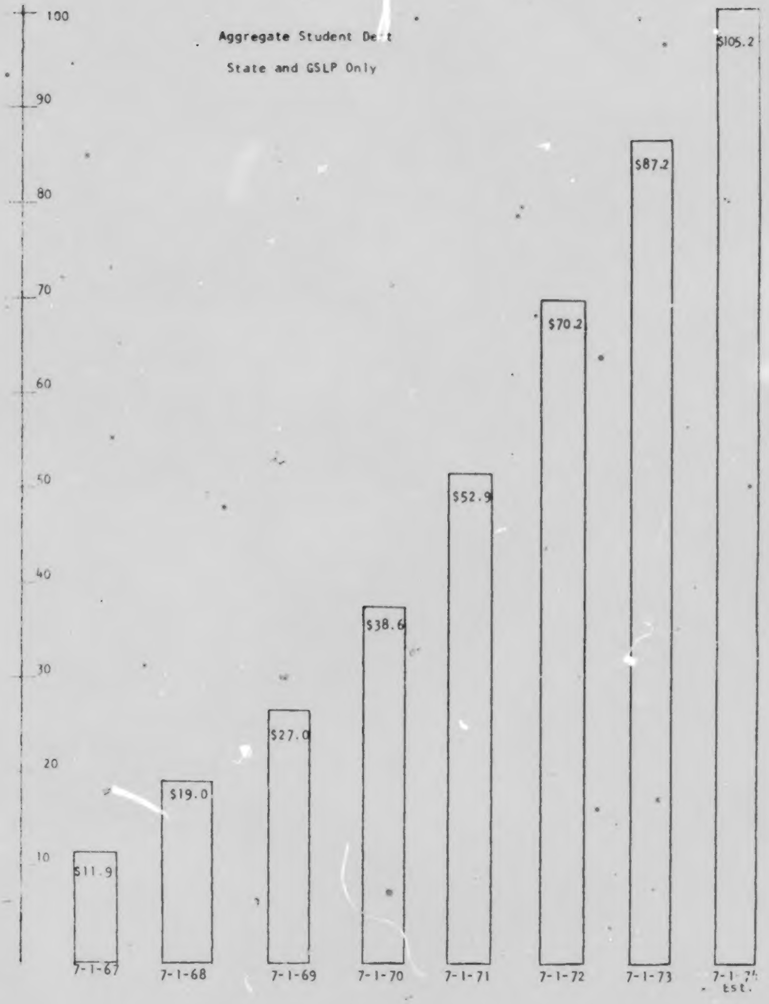
Amount and Make-Up of Wisconsin Student Aid - All Sources

1965-66 through 1972-73





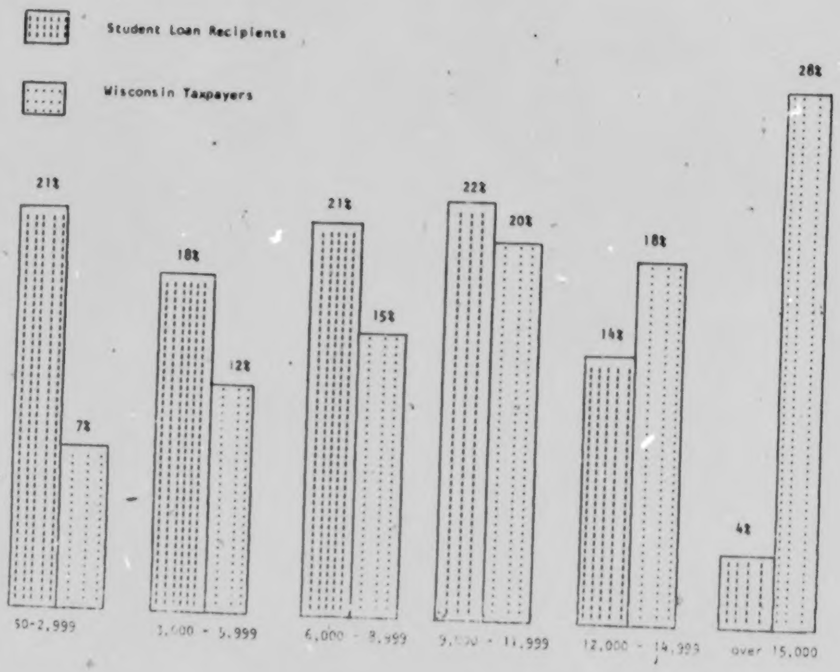
Amount and Make-Up of Wisconsin Student Aid
State Sponsored Only
1965-66 through 1972-73



Aggregate Student Debt

State and GSLP Only

Income Distributions - 1972 Income



STATE OF WISCONSIN HIGHER EDUCATIONAL AIDS BOARD—BOARD REPORT NO. 74–14, PROPOSED WISCONSIN GUARANTEED HIGHER EDUCATIONAL PLAN (WGHEP)

INTRODUCTION

Early in the consideration of the Agency's 1973–75 biennial budget request (Board Report #73-1, July 28, 1972), the Board reviewed, in a general way, several alternatives to the existing financing patterns of post-secondary education. While the Board took no formal positions on any of the alternatives at that time, it did direct the Staff to continue to examine this important issue.

Subsequently, the Governor's budget policy paper #21, reelased with the proposed 1973–75 executive budget recommendations to the Legislature, identified the financing of post-secondary education as a critical issue and directed the appropriate State higher education agencies to begin serious consideration of alternative solutions. The policy paper called for, and the budget statute established, an interagency study of this issue with recommendations to be submitted for consideration in the 1974 session of the Legislature. The budget bill ultimately adopted by the Legislature amended this provision by establishing a Legislative Study Committee to study the financing issue, along with other post-secondary problem areas.

On November 20, 1973, Joseph Nusbaum, Secretary of Administration, requested that the Higher Educational Aids Board; University of Wisconsin; State Board of Vocational, Technical, and Adult Education; and the Wisconsin Association of Independent Colleges and Universities give urgent and serious consideration to a proposed student support program, Wisconsin Guaranteed Higher Education Plan (WGHEP). The new program recognizes and attempts to resolve such major concerns as the State's new 18 year old age-of-majority legislation; the growing concern of middle-income parents over the rising costs of higher education; the need to insure broad and equal access for all students to Wisconsin post-secondary educational opportunities; and, finally, the realities of the increasing competition for limited State tax revenues.

A copy of Secretary Nusbaum's memo and a detailed outline of the proposed Wisconsin Guaranteed Higher Education Plan are included as the body of this report.

The 1973–75 biennial budget statute also directs the Board to undertake a review of present systems of need analysis systems with the objective of developing a uniform need analysis system for State student support programs. The identification of current problems outlined in the WGHEP proposals suggests that need analysis systems may no longer be a critical issue. In light of the fact the WGHEP basically accomodates the need analysis issue, the Staff suggests that the Board consider WGHEP as its response to the need analysis directive.

The proposed program is as complex as it is significant. For example, the proposal points out that great care must be exercised in determining the various schedules which are critical to the operation of WGHEP. Also, it is important that the particular elements and effects of the program be identified, analyzed, and developed in full public view and in full consultation with affected agencies and groups as well as the Legislature. It is equally important, as Secretary Nusbaum's memo suggests, that if WGHEP is conceptually sound, serious consideration be given to requesting initial legislative authorization for WGHEP in the January session of the Legisiture to insure orderly and public program development, as well as possible legal tests of the basic features of the plan.

RECOMMENDATIONS OF THE COMMITTEE OF THE WHOLE AS ADOPTED BY THE BOARD

(1) The Committee recommends that the Higher Educational Aids Board endorse in principle the approach embodied in the Wisconsin Guaranteed Higher Education Plan; and, further that the Staff be directed to continue to work with the Department of Administration, State higher education agencies, and all interested groups in the development of a specific program structure.

(2) That this endorsement in principle means: (a) The general framework for the Wisconsin Guaranteed Higher Education Plan be established for the 1975–76 school year; and (b) Authority for the Higher Educational Aids Board, in consultation with State higher educational agencies, student groups and other affected constituent groups to establish program details. In order to assure full Legislative involvement in program development, it may be desirable to provide

that the Joint Committee on Finance would approve the program details developed by the Higher Educational Aids Board for the Wisconsin Guaranteed Higher Education Plan prior to the program becoming effective.

(3) That Staff be directed by the Board to present a detailed plan for its consideration at the earliest possible date so that Legislative consideration of the proposal in the January 1974 session is possible.

(4) That the Board construes the action embodied in the foregoing recommendations as its response to the need analysis study required by the budget statute.

(5) That the members of the Higher Educational Aids Board understand (a) that the Wisconsin Guaranteed Higher Education Plan is designed for the purpose of enabling students who need aid to finance their post-secondary education, consistent with legal requirements, and (b) specifically recognize that the Wisconsin Guaranteed Higher Education Plan is not intended to serve as a basis for increasing the student's proportionate share of instructional costs for tuition at public institutions.

DEPARTMENTAL CORRESPONDENCE

Date: November 20, 1973.
To: Jim Jung, Executive Secretary, Higher Educational Aids Board.
From: Joe E. Nusbaum, Secretary, Department of Administration.
Subject: Financing Post-Secondary Education.

The purpose of this memorandum is to summarize the current situation regarding the study of alternative methods of financing post-secondary education, the developments to date and the directions for the immediate future.

In Executive Budget Policy Paper #21, the Governor outlined a number of problems related to the financing of post-secondary education. He concluded by calling for an interagency study of this subject with recommendations to be submitted to him for consideration in the 1974 session of the Legislature. He also incorporated the interagency study in the budget bill. The Joint Committee on Finance changed this statutory provision to a Legislative Study Committee and broadened the study to include a number of specific problem areas. Subsequently, the Legislative Study Committee adopted an agenda which gave initial attention to several of the specific questions with the last item on the agenda being the broader subject of financing post-secondary education.

Subsequent to the Governor's original budget recommendations and policy papers, an ad hoc committee representing post-secondary education agencies of the state, private colleges of Wisconsin and the Department of Administration held a number of exploratory meetings on the executive policy paper. In these brainstorming sessions we considered major changes in objectives and financing policies which would have drastically altered traditional relationships and programs. While the committee never took an official position, I believe most of us saw substantial merit in the policies we considered, especially with regard to overcoming the problems of age of majority, residency and equity. But we also recognized shortcomings and potential problems, especially with regard to protecting the public committment to public post-secondary education. The reaction to the recent CED report and the Carnegie report bore out our concerns.

As the initiator of the proposal to study post-secondary educational financing, the Department of Administration has a responsibility to the Legislative Study Committee to bring to its attention the problems and any suggested solutions which we feel may expedite the committee's work. However, I would hope that we can go to the committee with proposals that have some degree of acceptance and support from the University of Wisconsin System, the Vocational, Technical and Adult Education System, the Higher Educational Aids Board and from independent colleges and universities.

Without prejudicing the consideration of a more substantial alteration in the post-secondary educational financing system at some later time, I feel that our efforts should be concentrated on more immediate problems within the traditional financing system. Two major problems which must be addressed are the significant implications of age of majority on our present financial aid programs and the unmet financial needs of students from low and middle income families. These problems must be addressed, however, within the context of resource limitations.

For the last several months, the Department of Administration with the assistance of the staff of the Higher Educational Aids Board have concentrated on these problems. The product of this effort is an outline of a program designed to deal with age of majority and other issues. (See the attachment for an outline of the "Wisconsin Guaranteed Higher Education Program.")

Given the problems associated with the finnacing of post-secondary education and the constraints that exist in the solution of those problems, we have found no viable alternative to the general approach outlined in this proposal. However, the important details of the program are complex and may be approached in several ways. While I am most enthusiastic about the general approach of the Wisconsin Guaranteed Higher Educational Program, I feel it is essential that all elements of a final program be adequately and publicly reviewed.

Because of the urgency and importance of the issues addressed in the Wisconsin Guaranteed Higher Education Program, I believe it may be necessary to pursue basic legislative authorization for the program in the 1974 session of the Legislature. To this end, our present plan is to recommend that the Legislative Study Committee give consideration in the latter part of January to a proposal which would provide the following: (1) The general framework for the Wisconsin Guaranteed Higher Education Program to be established for the 1975-76 school year; and (2) Authority for the Hightr Educational Aids Board, in consultation with state higher educational agencies, student groups and other affected constituent groups to establish program details. In order to assure full legislative involvement in program development, it may be desirable to provide that the Joint Committee on Finance would approve the program details developed by the Higher Educational Aids Board for the Wisconsin Guaranteed Higher Education Program prior to the program becoming effective.

I ask for your cooperation in this endeavor and request that you consider the draft of the proposed Wisconsin Guaranteed Higher Education Program which is attached. I further request your assistance in developing recommendations for consideration by the Legislative Study Committee.

Attachment.

WISCONSIN GUARANTEED HIGHER EDUCATION PLAN (WGHEP)

Several national commissions and organizations, including the Carnegie Commission and the Committee for Economic Development, have issued final reports on post-secondary education finance. These reports have provoked a great deal of national comment; much of it negative because the reports recommended raising tuition at public institutions. On the other side, the national comment on these reports also suggests a broadening public awareness of the problems of post-secondary education finance and the growing need which is fast becoming an imperative for solution of this major financial dilemma.

Reasons for change

Since the time that concern has been raised about the post-secondary education finance issue, many of the reasons which prompted the concern have now become part of the public domain. These reasons include: legal redefinition of residency, greater financial accessibility to post-secondary educational opportunities, the new 18 year old age-of-majority, the intense pressure on the limited tax dollar generating ever increasing pressure for more effective targeting of expenditures, the problems of inceasing conventional student debt, growing pressures from middle income citizens for financial relief and increasing consumer pressures for more fiscal and programmatic accountability on the part of post-secondary institutions.

All of these reasons are important, but there are three interrelated concerns which make some fundamental change in the manner in which citizens are financially assisted in achieving a post-secondary education almost an imperative: the impact of the 18 year old age-of-majority on existing programs, the educational cost concerns of middle income class families, and the growing need for student financial aids in the face of an ever increasing competition for the tax dollar.

Age-of-majority

The State's 18 year old age-of-majority legislation has transformed the State's post-secondary education systems from child-oriented systems to adult-oriented systems. One of the first changes that occurred was the ending of the concept of "in loco parentis." Many other changes are underway that can be directly traced to the lowering of the age-of-majority to eighteen. However, a change that has not as yet occurred is the manner in which students are financed.

Essentially, all systems of need analysis are predicated on the financial capacity of the student's family. This dependence on parental financial resources raises a significant question as well an equally significant legal question.

It is difficult to find any precedent for providing a public benefit to an adult which is subject to the financial capacity of the adult's parents. In fact, quite the contrary is the case. It appears that given the 18 year old age-of-majority, the question is not whether the State should legally require parents to assume financial responsibility for their adult children who are students, but for how long the practice can continue before legally prohibited.

A change in the legality of requiring an adult parent to be responsible for an adult child with the present configuration of student financial aid programs would cause a disastrous effect in Wisconsin. Since practically all students would be in total need if parental financial resources could not be included in the need determination, the tax dollars required to support current student aid programs would be without question prohibitive. Therefore, it becomes essential now to consider a program of student support which takes full account of the implications of the 18 year old age-of-majority to insure an orderly transition.

The limited tax dollar

It is axiomatic that the tax dollar is a limited commodity and the competition for it is increasing. As has been pointed out throughout the national literature, it is no longer politically realistic to anticipate increased levels of support for post-secondary education at the same rate as has been made available in the past. As a corollary, post-secondary education is under increasing pressures to target expenditures to achieve maximum effectiveness. Higher education leaders are calling this period the "age of accountability." These pressures are affecting all areas of expenditures for post-secondary education including student financial aid.

Even though these pressures for fiscal accountability and constraint are real and will continue to be in the foreseeable future, care must be exercised by decision makers to insure that those necessary freedoms and traditions which have made the State's post-secondary educational systems so productive in the past are preserved in order that the productivity of the past is insured for the future.

One way of meeting the challenge of the 18 year old age-of-majority in the area of student aid is to make post-secondary education relatively free for everyone. To develop a plan which achieves this objective is relatively easy. However, given the enormous cost of such programs and the intense competition for public dollars, such a plan would be viewed as a political fantasy.

Yet, assuming the policy necessity of preserving and widening the financial accessibility of post-secondary educational opportunity, it becomes necessary to consider programs which provide and target financial support equitably to those who need it and in the amounts required. Since the consideration of student current economic status is not relevant to achieve this goal, there are few alternatives from which to choose—if the age-of-majority requirements are to be met—and all of them have in common the consideration of the student's financial condition *following* the completion of the post-secondary educational experience.

The concerns of the middle income citizen

A closely related development is the plight of the middle class. The middle income taxpayer, no matter how defined, comprises the largest group of taxpayers and has the largest number of children in post-secondary education. Every new or changed cost of government has a heavy impact on the middle class taxpayer.

The present financing structure supporting post-secondary education is dependent on the middle class taxpayer. As presently constituted, student need based financial aid programs generally exclude the middle class income citizen from participation. The federally Guaranteed Student Loan program which was originally designed to assist the middle class family was changed by

Congress last year so that this program has also become a traditionally need based program.

The tradition of low tuition has been about the only post-secondary assistance which has been viewed as benefiting the middle class family and the high income family. It might well be argued that the strong objections which have been raised nationally against recommendations involving the raising of tuitions is primarily an expression of middle class concern. Congressman James O'Hara, Chairman of the House Subcommittee on Education, has stated in unequivocal terms that Congress is listening carefully to the voice of the middle class and will act accordingly.

At the State level, as well, this voice is being heard with the result that any basic changes in the student financial aid structure which do not take into account the middle class citizen will probably have little chance of obtaining legislative success. Therefore, the problem becomes one of developing a program which takes into account the very legitimate concerns of the middle class taxpayer while maintaining the State's commitment to the poor and disadvantaged.

The State-Federal relationship

There is an additional concern to be accommodated in considering basic changes in the State's student financial aid structure—the State and Federal relationship. The federal government is faced with the same problems and concerns as are the States about post-secondary finance and since it is the State and federal governments which are the primary sources of support for post-secondary education, it would seem that both would be working together to devise a financing strategy for post-secondary education which is mutually complimentary.

Currently, Congress is again considering all the issues of post-secondary finance. The House Subcommittee on Education has already indicated that its review will be complete and its recommendations comprehensive. Given the commonality of purpose as between the State and federal governments, State initiatives in the area of post-secondary educational finance should take full account of existing federal programs and point to directions whereby the State and federal relationship can become a partnership.

A proposal

In developing the proposal which follows, primary attention was given to the following:

1. Accommodating the implications of the 18 year old age-of-majority
2. Equity and financial accessibility to post-secondary education for all citizens
3. Accommodating the legitimate concerns of the middle class citizen while preserving the State commitment to the poor and disadvantaged
4. The limited availability of State tax dollars
5. Full and complementary use of federal programs
6. Political feasibility
7. Maintenance of the State's commitment to minority and disadvantaged students

Given these rigorous constraints, there is little choice concerning basic features of the program. For example, there is no viable alternative to establishing the future income streams of students as the primary component of the proposal if all seven of the constraints are to be even minimumly satisfied. Some of the basic features of the proposed program are as follows:

1. Necessitates *no increase* in tuition at public institutions of higher education.
2. Considers *only* the student's financial resources in determining need. The proposed program removes the requirement of parental contribution.
3. Provides advances from the State to students, in the amounts required to attend institutions of higher education of choice.
4. Provides that the student repays the State the amount advanced based on the student's income after completion of the program.
5. Provides a State interest subsidy program based on income.
6. Provides for full utilization of the federal student financial aid structure.
7. Eliminates the major problem for minorities and disadvantaged students, that is, their high fear of loan money and possible academic failure which

would result in financial calamity for both themselves and their families if the loan had to be repaid without regard to income.

Outline of the proposed Wisconsin guaranteed higher education program

(1) *Student income contingent program.*—Under WGHEP, the State would establish a greatly expanded direct student air program which would incorporate an income contingent repayment feature. Wisconsin residents would be allowed to receive up to a maximum amount necessary to meet standard living costs, plus tuition at the institution of choice, as determined by the Higher Educational Aids Board.

(2) *Student financial need.*—The student's option: (a) Based on the family's financial status as determined by the traditional need analysis system; or (b) Based on the student's personal financial status following an emancipation statement signed by the student. In the case of the latter alternative, the parent would be prohibited by law from claiming the student as an exemption for State tax purposes.

(3) *Negotiation by student.*—The student who elected to participate in WGHEP would be required to sign two legal documents: the regular student note stipulating repayment in ten years (required for continued participation in the federal program); and a second agreement between the student and the State which stipulates that the State will repay the traditional note for the student if the student in turn agrees to pay the State on an income contingent basis for up to 25 years or until the State advance is repaid, whichever occurs first.

(4) *Guarantee of WGHEP money received.*—As in the present direct student loan program, notes would be guaranteed 100 per cent by the Wisconsin Higher Education Corporation. Students would continue to pay an insurance fee of ½ of 1 per cent at the time they receive funds under WGHEP.

(5) *WGHEP interest rates.*—The student would pay no interest while in school and a variable rate of up to either the market rate or 7 per cent, depending on income, after leaving school. The federal government pays 7 per cent interest while the student is in school.

(6) *WGHEP income contingent schedule.*—The student's principal repayment and the interest would be contigent upon actual earnings after leaving school. While the ex-student's earnings are low, the interest would be more heavily subsidized by the State and the required percentage of income devoted to principal payment would be low. As income rises, the State's interest subsidy would decline and principal payments would increase as a percentage of income. The income contingent schedule would be evaluated annually and appropriately adjusted to reflect changes in earnings, inflation, etc.

The plan assumes that students would be expected to repay only what had been advanced plus interest over a maximum period of 25 years. If their level of income remains low over the 25 year period, whatever amount remains due at that time will be forgiven by the State.

There are a variety of income schedules or formulas which incorporate the objectives outlined. For illustrative purposes only, several such formulas are set forth in Technical Appendix A. A review of the various alternatives suggests that a number of issues must be decided prior to a determination of the final formula or schedule. These issues include: (a) Setting the repayment rates; (b) Selecting the appropriate income base; (c) Determining the treatment of non-working spouse; (d) Selecting the maximum repayment period; (e) Establishing low-earnings protection; and (f) Choosing between mutualization of the risk or external subsidization.

(7) *Preliminary cost estimates and sources of funding.*—Technical Appendix B identifies cost centers of the proposed WGHEP and possible sources of funds. Definitive cost projections are contingent on basic decisions involving the schedule and extent of State participation. What Technical Appendix B shows is the relative magnitude of costs and the fiscal feasibility of a WGHEP program.

(8) *Federal participation and WGHEP dollar maximums.*—Federal participation is presently limited to an annual per student maximum of $2,500, an aggregate limit of $10,000, and a maximum repayment period of ten years. WGHEP will allow advances to exceed $2,500 and as noted earlier will extend the repayment period to 25 years. Assuming, however, that the federal pro-

grams will continue, guarantees and interest subsidies in excess of those provided by the *federal government will* be the responsibility of the State.

(9) *Continuation of private lender participation.*—Under WGHEP, the existing guaranteed student loan program would continue and students would have the option, at the time they come into repayment of participating in WGHEP or repaying the private lender under the conventional ten year repayment plan. Should the student choose to participate in WGHEP, repayment to the State could extend over a 25 year period and the State would repay the lender on the student's behalf over the ten year repayment period.

(10) *Multiple borrowing and participation in WGHEP.*—All students who are enrolled at the time the plan went into effect, who borrowed under either the present direct State loan or guaranteed private loan program and who choose to participate in WGHEP would be eligible to repay all of their loans under WGHEP. Thus, seniors in 1975–76 wh orectived direct or guaranteed loans as freshmen, sophomores, or juniors in 1972–73 through 1974–75 and who choose to participate in WGHEP in 1975–76 would have all their obligations covered under WGHEP.

(11) *Role of the institutions with WGHEP.*—The role of the institutions would not change under the proposal. In the case of a student who participates under WGHEP, however, the institution would not be required to perform the traditional needs test to determine the student's WGHEP amount. Only the student's assets would be considered which for a vast majority of students would involve only a declaration. The student could receive a WGHEP amount necessary to meet standard living costs plus tuition as approved by HEAB less other aid, federal or institutional, received by the student. In this case the role of the school would be to submit the emancipation document along with the WGHEP application.

(12) *Auditing for tax purposes.*—Under WGHEP, parents could no longer claim the student as a deduction for State tax purposes. The Board would establish a procedure to notify the Department of Revenue on an on-going basis of the names of the students in WGHEP. to insure an audit trail for tax purposes.

(13) *Future of present scholarship and grant programs.*—With the exception of the Tuition Grant Program, all existing State grant and scholarship programs would be phased out over an extended period of time. These programs would be phased out as State funds are required to meet the interest subsidy requirements of the new program. To meet the age-of-majority problem with the Tuition Grant Program, consideration should be given to establishing a flat grant program consistent with the policy of equalization.

Benefits of WGHEP

(1) The proposal fully accommodates the State's 18 year old age-of-majority.

(2) The proposal is particularly attractive to students from middle income families who currently have little financial assistance available to them.

(3) The questions of equity associated with the current institutional subsidy are not addressed, but since WGHEP amounts are tied to total student cost rather than tuition alone, it establishes the concept that the post-secondary financing structure must deal with all costs faced by students.

(4) The income contingent repayment feature of WGHEP would assure greater equity in the system and deal directly with the problem of unmanageable student debt.

(5) By placing greater financial resources in the hands of students, WGHEP will foster increased "consumerism" on the part of students, and thereby increase institutional willingness to respond to change.

(6) Minorities and disadvantaged people are in fact given a full opportunity for participation in post-secondary education, since the fears of costs and loans are removed.

(7) The need for existing State supported student grant programs is substantially reduced.

Areas of concern

In reviewing the proposal, an attempt was made to identify possible problem areas so that they could be dealt with early in the development of the program.

(1) *Impact on access for low-income students.*—Traditional needs analysis techniques have allowed significant "targeting" of financial support to poor,

nontraditional and minority students. This targeting has correspondingly increased enrollments of such students in post-secondary programs. While the goal of equal access has not been obtained, significant strides have been made over the last five years in accomplishing the goal. It has been strongly suggested that a student support structure which relies heavily on conventional loans which is true of the present structure, works to restrict access to post-secondary education for low income students.

Under WGHEP, access to post-secondary education will be improved. In a very real sense, WGHEP is a way of protecting low and middle income students from the adverse consequences of student debt. Over time, as the public becomes aware of the economic protection built into the program, an increasing number of low income students should take advantage of post-secondary opportunities thereby further improving equal access to higher education.

(2) *Federal uncertainties.*—A key element of the program is continued participation of the federal government provided in existing loan programs. Since the proposed program includes some significant departures from existing federal programs, federal approval may be a problem. For example, the lengthened repayment period might cause some concern. The dual promissory note procedure is intended to deal with this problem.

Should an unresolvable problem develop between the State and federal government, it is not inconceivable that a legal action would have to be initiated by the State in order to force resolution of the issue.

(3) *Long-range fiscal impacts.*—A particular problem is accurately projecting the fiscal impact of WGHEP for a period as long as 25 years. Recent dramatic shifts in the economy and post-secondary enrollments have, for example, invalidated many shorter range projections.

Two factors, however, serve to significantly reduce uncertainties. First, the program will be continually monitored by the Higher Educational Aids Board and the Legislature. It is expected that the schedule will be re-evaluated annually. The likely inflation in personal income will be reflected in the updating of the WGHEP schedules. Second, birth rate statistics now clearly indicate that a period of absolute decline in the college age population will occur in the 1980's and continue into the 1990',. This shrinking of the enrollment pool should enable the WGHEP fund to become a revolving fund earlier than might be predicted, based on present enrollments. Such a development would reduce, over time, the need for both additional capital as well as direct State appropriations.

TECHNICAL APPENDIX A

As noted in the body of the paper, a wide variety of income-contingent programs have been conceptualized over the last several years. This appendix identifies and briefly describes four varities that have been proposed.

PRINCIPAL PAYMENT, STUDENT INTEREST, AND STATE INTEREST SUBSIDY AS PERCENT OF INCOME

In percent]

Adjusted gross income	Interest: Student	Interest: State subsidy	Principal payment as percent of income
0 to $2,999	0	7	0
$3,000 to $4,999	2	5	0
$5,000 to $6,999	3	4	3
$7,000 to $9,999	4	3	4
$10,000 to $12,999	7	0	5
$13,000 to $15,999	7	0	6
$16,000 to $18,999	7	0	7
$19,000 plus	7	0	8

Under this schedule, both the principal and interest payment increases as income increases. The State pays an interest subsidy which decreases as income rises. A technical problem which has been identified with this approach is the need to closely correlate the principal and interest percentages so as to eliminate distortions which may occur particularly in the case of large loan amounts.

Total payment as percent of income with State interest subsidy

Adjusted gross income:	*Income-contingent percentage*
0 to $2,999	0
$3,000 to $4,999	0
$5,000 to $6,999	3
$7,000 to $9,999	4
$10,000 to $12,999	5
$13,000 to $15,999	6
$16,000 to $18,999	7
$19,000 plus	8

Under this proposal, the student's advance and interest payment is based on a single percentage which increases as income rises. In the event the student does not earn sufficient income to cover any portion of the annual interest, the State would pay that amount as interest subsidy.

Repayment rates which vary with total amount borrowed

Dollars of AGI for repayment=0.65 percent per $1,000 advanced

Under this formula, the rate applied to income is based upon the total amount advanced. Such rates are generally expressed as a percentage of income per $1,000 borrowed, making the percentage of income to be paid each year directly proportional to the total amount advanced. For example, if a student borrowed a total of $5,000, his total annual payment, would be 3.25% times adjusted gross income. A student who is advanced $10,000 would pay 6.5% of his annual income. As in the second example, a State interest subsidy would be paid in the event the student's required payment was insufficient to meet any portion of the interest.

Fixed repayment rates

Repayment=0.04 AGI—$100

Under this formula, the percentage applied to income remains constant as income rises. The rate is unrelated to the amount advanced and a $100 adjustment factor has been added to ease the burden for students in the lower income categories. As in the previous two examples, a State interest subsidy would cover any portion of the interest not met by the student's required payment.

TECHNICAL APPENDIX B

There are three cost centers associated with the proposed Wisconsin Guaranteed Higher Education Program: capital, interest subsidy, and principal subsidy. The capital cost of the program is significant, but would be obtained from a program revenue account (PRO) and would not be raised through taxes (GPR).

All estimates which follow assume a starting date for WGHEP of 1974–75 to insure capturing the full magnitude of cost even though the recommended starting date is 1975–76. Therefore, assuming the basis on which the cost requirements were developed are essentially correct, the dollar amounts may be overstated.

(1) *Capital (to finance student loans).*—Cost estimates for the program through 1980–81 are as follows:

1974–75	$191, 200, 000
1975–76	163, 200, 000
1976–77	203, 500, 000
1977–78	245, 800, 000
1978–79	293, 100, 000
1979–80	343, 200, 000
1980–81	439, 200, 000

Capital cost estimates were based on the following assumptions: 1) enrollment projections and trends indicated in *Revised Enrollment Projections 1972–82* for the UW System, *Full-time Equivalent Enrollments* for the VTAE System and *Eight Year Survey of Student Financial Aid Resources in Wisconsin 1965–73*; 2) 50% of those enrolled will borrow under the program; 3) average loan amounts will increase 20% per year; 4) student loans granted by private lenders in the period 1972–73—1973–74 will be refinanced with public funds over a four-year period 1974–75—1977–78 at 25% per year; 5) student loans made by private lenders will continue to increase at 16% per year; all of these loans will be refinanced with public funds over four year periods after the loans are made at 25% per year; and 6) all loans made under the program will require public funds. Table I summarizes these cost estimates:

TABLE I

	Enrollments	Average loan amount	Total cost
1974–75:			
UW	105,136	$1,430	$75,200,000
Private	24,419	1,620	19,800,000
VTAE	38,986	1,375	26,800,000
Total			121,800,000
Student loan refinancing			9,400,000
Total			131,200,000
1975–76:			
UW	106,707	1,715	91,500,000
Private	23,560	1,945	22,900,000
VTAE	42,543	1,650	35,100,000
Total			149,500,000
Student loan refinancing			13,700,000
Total			163,200,000
1976–77:			
UW	108,277	2,060	111,500,000
Private	22,699	2,335	26,500,000
VTAE	47,300	1,980	46,900,000
Total			184,900,000
Student loan refinancing			18,600,000
Total			203,500,000
1977–78:			
UW	110,289	2,470	136,200,000
Private	21,839	2,800	30,600,000
VTAE	46,100	2,375	54,700,000
Total			221,500,000
Student loan refinancing			24,300,000
Total			245,800,000
1978–79:			
UW	112,301	2,965	166,500,000
Private	20,979	3,360	35,200,000
VTAE	42,400	2,850	60,400,000
Total			262,100,000
Student loan refinancing			31,000,000
Total			293,100,000
1979–80:			
UW	112,475	3,560	200,200,000
Private	20,119	4,030	40,500,000
VTAE	37,200	3,420	63,700,000
Total			304,400,000
Student loan refinancing			38,800,000
Total			343,200,000
1980–81:			
UW	112,650	4,270	240,500,000
Private	19,259	4,835	46,600,000
VTAE	51,000	4,105	104,600,000
Total			391,700,000
Student loan refinancing			47,500,000
Total			439,200,000

These funds would be obtained from one or more of the following sources: a) from the General Fund through the State Investment Board; b) State Retirement Funds; c) private money market; and d) student loan secondary market (federal). Looking at three State Retirement Funds only, the Milwaukee Teacher's Retirement Fund, the State Teacher's Retirement Fund, and the Wisconsin Retirement Fund, the net balance of these funds which could be used for student loans is projected to increase from $2.3 billion in 1974 to $6.4 billion in 1982. It therefore appears that adequate capital funds exist within the public sector to fund the proposal. *Note:* It is critical to point out that if State Trust funds are to be used to support WGHEP, the State *must* guarantee the funds fully, including investment earnings which would normally contribute to the growth of these funds.

(2) *Interest Subsidy (to pay part of student interest based on income while in repayment).* Approximately 50% of all borrowers under this program are likely to receive an interest subsidy sometime during repayment. Since a lag exists between the time a loan is made and repayment, significant amounts of interest subsidy will not be required until 4–5 years after the start of the program. Interest subsidy costs are estimated to be as follows:

1975–76	$950, 000
1976–77	2, 850, 000
1977–78	6, 000, 000
1978–79	10, 700, 000
1979–80	16, 400, 000
1980–81	23, 200, 000

These program costs would be paid from a GPR (tax revenue) sum sufficient appropriation. Specific GPR requirements are dependent on the schedule as finally adapted for WGHEP. The amounts shown are intended to reflect the magnitude of funds required to support a State interest subsidy program.

Interest subsidy calculations were based on the following assumptions: 1) loans made in one year under the program will come into repayment over a subsequent four year period with 25% of the loans coming into repayment each year; 2) 50% of those borrowing under the program will receive an interest subsidy during repayment; 3) the average annual interest subsidy will be 5%; 4) the income contingent repayment feature of this program will apply to all State loans made during the period 1971–72—1973–74 and these loans will come into repayment according to assumption 1) above; and 5) and the market rate of return on trust fund investment is 7%. Table II indicates the quantity of loans coming into repayment.

TABLE II.—QUANTITY OF LOANS IN REPAYMENT

Quantity of loans made	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
1974–75, $131, 200, 000	$32, 800, 000	$32, 800, 000	$32, 800, 000	$32, 800, 000		
1975–76, $163, 200, 000		40, 800, 000	40, 800, 000	40, 800, 000	$40, 800, 000	
1976–77, $203, 500, 000			50, 900, 000	50, 900, 000	50, 900, 000	$50, 900, 000
1977–78, $245, 800, 000				61, 500, 000	61, 500, 000	61, 500, 000
1978–79, $293, 100, 000					73, 300, 000	73, 300, 000
1979–80, $343, 200, 000						85, 800, 000
1980–81, $439, 000, 000						
Total	32, 800, 000	73, 600, 000	124, 500, 000	186, 000, 000	226, 500, 000	271, 500, 000

Since 50% of the Quantity of Loans in Repayment will require interest subsidization, Table III indicates the Quantity of Loans in Repayment Which Will Require Interest Subsidization.

TABLE III.—*Quantity of loans in repayment requiring interest subsidization*

1975–76	$16, 400, 000
1976–77	36, 800, 000
1977–78	62, 300, 000
1978–79	93, 000, 000
1979–80	113, 300, 000
1980–81	135, 800, 000

Having calculated an approximate Quantity of Loans in Repayment Requiring Interest Subsidization, it is possible to calculate approximate Interest Subsidy Requirements under the program. (Table IV)

TABLE IV.—INTEREST SUBSIDY REQUIREMENTS

Quantity of loans in repayment requiring interest subsidization	1975–76	1976–77	1977–78	1978–79	1979–80	1980–81
1975–76, $16,400,000	$820, 000	$820, 000	$820, 000	$820, 000	$820, 000	$820, 000
1976–77, $36,800,000		1, 800, 000	1, 800, 000	1, 800, 000	1, 800, 000	1, 800, 000
1977–78, $62,300,000			3, 100, 000	3, 100, 000	3, 100, 000	3, 100, 000
1978–79, $93,000,000				4, 700, 000	4, 700, 000	4, 700, 000
1979–80, $113,300,000					5, 700, 000	5, 700, 000
1980–81, $135,800,000						6, 800, 000
Total	820, 000	2, 620, 000	5, 720, 000	10, 420, 000	16, 120, 000	22, 920, 000

In addition to the interest subsidy costs outlined in Table IV, there will be interest subsidy costs associated with the State student loans made during 1971–72—1973–74 which will come under the program's income contingent repayment schedule. Based on prior assumptions and using the methodology followed in Tables II–IV, these interest subsidy costs are as follows:

TABLE V.—*Interest subsidy requirements on 1971–72—1973–74 student loans*

1975–76	$130, 000
1976–77	230, 000
1977–78	280, 000
1978–79	280, 000
1979–80	280, 000
1980–81	280, 000

TABLE VI.—*Total interest subsidy costs*

1975–76	$950, 000
1976–77	2, 850, 000
1977–78	6, 000, 000
1978–79	10, 700, 000
1979–80	16, 400, 000
1980–81	23, 200, 000

Since capital for the Wisconsin Guaranteed Higher Education Program will probably come from trust funds, this program must guarantee an annual interest rate on trust fund monies equal to the annual rate of interest which would have been earned on alternative trust fund investments.

(3) *Principal Subsidy (to pay the principal for borrowers whose incomes are insufficient to meet repayment obligations over the 25 year repayment period).*—Estimating that the principal subsidy required under the program will be 4% of all loans made, the annual principal subsidy is projected to be as follows:

1975–76	$218, 000
1976–77	488, 000
1977–78	812, 600
1978–79	1, 208, 600
1979–80	1, 678, 600
1980–81	2, 226, 600

These program costs would be paid from a GPR (tax revenue) sum sufficient appropriation.

Estimating that the principal subsidy required under the program will be 4% of all loans made, the annual cumulative subsidy is projected to be as shown in Table VII.

TABLE VII

	Loans	Principal subsidy	Annual cost over 25 years	*Cumulative* principal subsidy [1]
1974–75	$131, 200. 000	$5, 200, 000	$208, 000	
1975–76	163, 200, 000	6, 500, 000	260, 000	$208, 000
1976–77	203, 500, 000	8, 100, 000	324, 000	468, 000
1977–78	245, 800, 000	9, 800, 000	392, 000	792, 000
1978–79	293, 100, 000	11, 724, 000	470, 000	1, 184, 000
1979–80	343, 200, 000	13, 700, 000	548, 000	1, 654, 000
1980–81	439, 200, 000	17, 600, 000	704, 000	2, 202, 200

[1] Loans made in 1 year are calculated in cumulative principal subsidy beginning in the following year.

In addition to the principal subsidy costs outlined in Table VII, there will be principal subsidy costs associated with the State student loans made during 1971–72—1973–74 which will come under the program's income contingent repayment schedule. Based on prior assumptions and using the methodology followed in Table VII, these principal subsidy costs are as follows:

TABLE VIII.—*Principal subsidy requirements on 1971–72—1973–74 student loans, Cumulative principal subsidy* [1]

1975–76	$10, 000
1976–77	20, 000
1977–78	20, 600
1978–79	24, 600
1979–80	24, 600
1980–81	24, 600

[1] Loans coming into repayment in 1 year are calculated in cumulative principal subsidy beginning in the following year.

TABLE IX.—*Total principal subsidy costs*

1975–76	$218, 000
1976–77	488, 000
1977–78	812, 600
1978–79	1, 208, 600
1979–80	1, 678, 600
1980–81	2, 226, 600

Since capital for the Wisconsin Guaranteed Higher Education Program will probably come from trust funds, the program must guarantee 100% of trust fund capital utilized.

Adoption of the Wisconsin Guaranteed Higher Educational Program would result in certain GPR (tax revenue) increases and could result in certain GPR savings. With increased student emancipation under the program, there will be fewer income tax exemptions claimed by Wisconsin parents. The GPR increase from student emancipations is expected to be $2.5 million per year, this amount appears to be sufficient to meet principal subsidy requirements for the first years of the program. GPR savings of approximately $7 million per year could be realized through the elimination of existing State scholarship and grant programs with the exception of Tuition Grants. These funds could be used to offset costs associated with the interest subsidy.

Mr. STEIGER. Thank you, Mr. Chairman.

I am grateful for your hospitality and willingness to let me join the subcommittee this morning. The matter you have under consideration and the approach that is outlined by Jim Jung and Dick Johnston and the staff has, to say the least, created substantial interest in Wisconsin and elsewhere, and I am most especially pleased that Jim is here this morning to give us this testimony.

I wonder if I could go to the student representative for several questions.

One, what kind of role has the student population played in the consideration by the Higher Education Aids Board in Wisconsin of this proposal?

Ms MACIEJEWSKI. For the past 2 years a proposal of this nature has been under discussion in Wisconsin. In all the steps from initiation to the final proposals, students have been actively involved. This includes students not only from the University of Wisconsin system, but also students representing private colleges and universities in the State and also students representing the State's vocational and technical institutions.

So, students have been actively involved in every step of the Wisconsin guaranteed higher education plan.

Mr. STEIGER. The reaction at this point from those with whom you have worked has been what?

Ms. MACIEJEWSKI. Most students feel that this plan is very desirable for two major reasons.

First, it recognizes the age of majority that many States are now adopting. An increasing number of students now feel it is their responsibility, and not their parents' responsibility to finance postsecondary education.

However, under the present system, because of the Federal rule regarding emancipation, a student must go for up to 2 years without either parental or Governmental support in order to become emancipated. Most students cannot afford to do this.

The present system encourages and necessitates that students who are adult by State law remain children for educational purposes.

Secondly, the program recognizes the reality of the unmanageability of student debt. With increasing numbers of students borrowing increasing amounts of dollars, with the increasing multiple-source borrowers, and also the unemployment and underemployment of college graduates it is unrealistic to expect students to pay on a strict repayment schedule that has no connection to ability to pay.

The income contingent feature is therefore, most attractive to students.

Mr. STEIGER. What is the default rate at this point on the Wisconsin program?

Mr. JOHNSTON. We have two programs in Wisconsin. We have a direct student loan program where the State is essentially the lender. In that program our default rate on matured paper is 2.3 percent. In our guaranteed State loan program with participating lenders we have two rates, one based on default of dollars, which is 2.9, the other based on percent of borrowers, which is 1.7.

Mr. JUNG. May I comment, Congressman Steiger?

That is hard data, very hard data.

Mr. STEIGER. The Higher Education Aids Board, as I understand how they have handled this, have said in principle, we like the concept that you have outlined this morning.

Can you tell me what that means?

Secondly, would you be willing to share with the committee the reaction from the higher education community in Wisconsin as a whole to this concept?

Mr. JUNG. There are many details that were not a part of the proposal, and that was intentional. The judgment was made that the board ought to consider the reasons for such a proposal, the basis, and the assumptions on which such a proposal would be based, rather than focusing on particular details about which there might be substantial disagreement.

However, if there could be agreement achieved as to the reasons and to the general direction, then it would not be necessary to go through the process of rediscovering the wheel at every meeting.

The reaction has been mixed. Some of the other higher education agencies have expressed a concern that this kind of plan might make it easier to raise tuition in the public schools. There were feelings expressed that this sort of plan would abrogate the State's traditional responsibility of providing aid to educate the younger generation. This has been the initial response, however.

I think as more and more understand what the situation is, the discussion has changed. For example, many of the critics were not aware that 63 percent of all aid Wisconsin provides to students other than tuition subsidy is in the form of loans, conventional loans.

As these facts about the existing situation are coming to the fore, some of the more hostile responses have become a bit muted. I think that over time a serious discussion might ensue.

Mr. STEIGER. What you are suggesting to this subcommittee is an effort to do what? To try in effect to authorize the Commissioner of Education to work out an arrangement with a State which would do what?

Mr. JUNG. Which would allow the State to operate a joint State-Federal program similar to what I have outlined in my testimony. It would be enabling legislation which would set the guidelines, and parameters which a State would have to meet.

But then it would be up to OE and the State to negotiate and complete a State plan and also to provide some form of congressional review.

Mr. STEIGER. In effect, then, you would what, want to do away with the needs analysis altogether?

Mr. JUNG. No. If a student has a million dollars' worth of stock in the student's own name, that student could not participate under this program. But the needs analysis would be greatly simplified and would only consider that student's resources.

Mr. STEIGER. So that you would not continue to have the spectre that we now do, of parental difficulty in dealing with what their income is or what the farm asset is?

Mr. JUNG. That is correct. It restores a more normal family relationship. Presumably families will continue to give money to their adult students, but they would not do it by order of a computer. They would do it because they would want to and in the amount they would want to.

Mr. STEIGER. Explicit within an arrangement between the Office of Education would be a provision for the Federal Government recognizing the progressive tax concept after departure from school.

Mr. JUNG. Correct.

Mr. STEIGER. You would also do away with the inschool subsidy, that would have to be arranged?

Mr. Jung. Yes.

Mr. Steiger. Would you do away with forgiveness for teaching in rural areas or whatever we now forgive?

Mr. Jung. Yes.

Mr. Steiger. You would also provide some money for and after school interest subsidy matching provision, plus State administration?

Mr. Jung. Correct.

Mr. Steiger. Plus anything further?

Mr. Jung. Plus the Federal guarantee on principal.

Mr. Steiger. Federal guarantee on principal?

Mr. Jung. Which would come into play at the end of 25 years.

Mr. Steiger. Mr. Chairman, I will take no more time, and I may come back, if I can.

I would only by way of comment say to both the chairman and the ranking member who has the responsibility and obligation for what you do relatively quickly in this field, that I have watched what the Higher Education Aids Board in Wisconsin has done. As you might expect, I have tried to keep in fairly close touch with Jim Jung on what is being proposed.

On balance, I think what Wisconsin has presented this morning is an incredibly thoughtful, well-worth-pursuing idea. I think the rationale that they used both in terms of the problem of the age of majority and in terms of the regressive nature of the present program is absolutely essential.

While I recognize that this fundamental redirection of the student aid program, which is what this is all about, is not without its problems or questions, the approach that Jim is suggesting for us to find a way to authorize the start of an effort between the Office of Education and a State, if they so desire, ought to be followed.

I thing you ought to try to work something out that would encourage not just Wisconsin but other States that might be interested to take a look at this kind of idea. I hope you will.

Mr. O'Hara. I want to assure my friend from Wisconsin, who has made a great contribution to the considerations undertaken by this subcommittee, even though he is not a member of this subcommittee, that we do not intend to ignore these recommendations from the Wisconsin student aid authorities.

As a matter of fact, I consider them interesting and challenging and with a number of notable features that I think might well be incorporated in our guaranteed student loan program.

So, I will assure the gentleman from Wisconsin that we are going to give these full consideration.

Also, the Office of Education recommendations are very interesting.

I thank the gentleman from Wisconsin for coming over today. I hope that we can get into further discussion of this as we go forward.

Mr. Steiger. I will look forward to it.

Mr. O'Hara. Does the gentleman from Oregon have any questions?

Mr. Dellenback. Thank you very much, Mr. Chairman.

I do appreciate the testimony and thank all three of you for coming. There is a distance and an expense and effort involved. We appreciate the contribution that all of that entails.

Mr. **Jung.** Thank you.

Mr. **Dellenback.** I think the comments you have made about the 18-year-old majority and the impact that is going to have is just absolutely fundamental.

I don't think that in most State programs and Federal programs they have come to grips with it. We have not faced what it is really going to mean in the whole area of needs test.

It will raise constitutional questions. It will raise some very tough questions that go across the board. I think your looking at that as a base for feeling that something should be done is absolutely sound.

I ask the following questions of my good friend from Wisconsin. I don't think this need to be said to you, but the point the chairman has made to Mr. Steiger is absolutely sound. He has been an extremely valuable member of the full committee, helpful to this subcommittee as well as to other members of the full committee. I hope this message is broadcast throughout the State.

Mr. **Jung.** We include him as one of our own.

Mr. **Dellenback.** In dealing with the educational amendments, he was a conferee, so he can't wash his hands of what is wrong anymore than anybody else can fail to give him a claim for what is really good in those amendments.

He was asking a question about the elimination of the needs test. Your comment was negative, saying it does not eliminate the needs test. For practical purposes, doesn't it really eliminate the needs test?

Mr. **Jung.** Yes, it does.

Mr. **Dellenback.** You have just a handful of students who really would not——

Mr. **Jung.** That is correct.

Mr. **Dellenback.** Under the circumstances, would it not be just as simple to eliminate the needs test? You leave it there and they have to go through a paperwork shuffle on every applicant, 99 percent of whom are not going to show any near capacity to carry themselves.

Mr. **Jung.** If I gave the impression I was talking about conventional needs analysis for just students, I was in error. It would be up to each State to set the procedure whereby at least there would be an administrative system to identify those few students that have substantial assets in their own name.

Mr. **Dellenback.** Under those circumstances, since there is no subsidy under your proposal and since there is going to be no difficulty in repayment with those who would otherwise say they don't object, for practical purposes couldn't we just as well wipe the needs test out?

Mr. **Jung.** Yes.

Mr. **Dellenback.** It would not make any material difference in what you propose to us?

Mr. **Jung.** Not at all.

Mr. **Dellenback.** Under the Wisconsin program as such, are you eligible to participate in Sallie Mae?

Mr. **Jung.** Yes.

Mr. **Dellenback.** It is my guess you are. I want to be sure that is the case.

Mr. **Jung.** We are.

Mr. Dellenback. So that particular suggestion, which was one of your proposals, about getting into Sallie Mae as an important part of the program is already a fact. We don't have to worry about modifying the law. You are already covered so we have not blocked you under the Wisconsin program from participating in Sallie Mae?

Mr. Jung. That is right.

Mr. Steiger. If you will yield, John, the point that is made in Jim's point No. 3 is the tapping of the trust fund, number one. Secondly, the use of Sallie Mae for capital resources.

Mr. Dellenback. My question only went to the second facet.

Mr. Steiger. Is it possible now in Wisconsin for you as a State agency, after we finally got that changed, that you can, in fact, participate through Sallie Mae?

Mr. Jung. Yes.

Mr. Dellenback. I was not talking about the guaranteed facet. I was talking about the second facet, and I wanted to make sure the road was open from our end.

Mr. Steiger. It did not used to be.

Mr. Jung. Correct.

Mr. Dellenback. When you come to the matter of progressive rate of repayment—and I prefer that phraseology to "progressively tax future income streams"—you are not really talking about a tax. Rather, you are talking about an agreement whereby the repayment would be predicated upon capacity to repay.

Do you have any additional information included in your figures as to possible rates? How much would it vary? What might a student be expected to repay and do you have a rough estimate of the low and the high end?

Mr. Johnston. We have in the appendix——

Mr. Dellenback. I don't mean the whole coverage, but can you give us a rough handle?

Mr. Johnston. We have in the appendix a full paper which notes that a number of specific elements would have to be determined before a formula was decided upon. There have been several national discussions of income contingent loans, so the intellectual backup is already there. It would be a matter of picking out an appropriate formula.

Mr. Dellenback. Are you talking about a 1 percent repayment schedule or 10 percent repayment schedule?

Mr. Jung. We have several examples ranging from 5 to 8 percent.

Mr. Dellenback. Of net taxable income?

Mr. Jung. That is correct.

Mr. Dellenback. Have you examined in depth the Yale experience in this regard? Is there any comment you could make? I understood that Yale University undertook something along this particular line, and unless I miss my recollection in this, they have backed away from it.

I don't know whether it was from shortage of available capital, or an experience that is not desirable so far as payments are concerned.

Mr. Johnston. First, Yale has not had a great deal of experience with repayment.

One of the reasons they backed away was that the plan was so popular. The capital demands were increased at such a significant rate that they didn't have the capital to make the program available to all students who wanted to participate in it.

Mr. DELLENBACK. So, in going forward with your own plan, you have not been able to lean very heavily on the Yale experience or experiment? Are there any others who have shown the foresight that you and Yale have shown?

As a graduate of the class of 1940 I am naturally curious.

Mr. JOHNSTON. There are other institutions that are experimenting with the idea, Yale, Harvard, Pennsylvania. There are also other States that are looking at this type of plan.

Minnesota, for example, has enabling legislation that it has not implemented for income contingent repayment.

Mr. DELLENBACK. May I just say that I find much that is provocative in this. I am intrigued by not only the substance of what you suggest, but also your emphasis on acting now—feeling that yesterday is already too late, and we should be moving immediately.

As a corollary to that, you say to us then, if we don't act now, it is better not to act?

Mr. JUNG. Oh, no. I think any action is positive.

Mr. DELLENBACK. I am not deliberately preaching delay; I just didn't know whether the emphasis was the school year emphasis so that if we don't do it immediately we will have lost the initiative for the year. Were you trying to emphasize something like that or not?

Mr. JUNG. It would seem that the fiscal problems underlying this whole program are such that if the committee or Congress were to wait 2 years, they might be of such a magnitude that alternatives like the one being suggested here would no longer be feasible. If defaults continue to sharply increase, the fiscal shock at both the Federal and at the State levels might prompt some injudicious action.

Mr. DELLENBACK. Do I understand correctly when you talk about your five basic features that you feel ought to be in there, the first point is the progressivity of an income contingent repayment—I understand that one. When you talk of the second one, of the interest subsidy program during repayment, do I understand correctly you are not talking about an interest subsidy for everyone?

You would, I assume, have a pattern that, if a student were to repay X dollars on the income contingent basis, the first application of the repayment would be to pay interest; if the student were paying enough to cover the interest, it would not be subsidized, it would be covered? It is more an interest guarantee subsidy for the deficiency between the normal rate of repayment and interest for that period?

Mr. JUNG. That is correct. The provisions outline specifically that at least 20 percent of what any student would repay in any 1 year would go to reduce principal, the balance would go to interest.

Mr. DELLENBACK. If there were not enough of a balance to pay the interest for that year, then in effect that is an application of a needs test, and in that situation the subsidy takes over?

Mr. JUNG. Exactly.

Mr. DELLENBACK. There are other things that will come as we progressively study this. I have found this very helpful. I join with my colleague from Wisconsin and the Chairman in thanking you for giving us a very valuable statement.

Thank you, Mr. Chairman.

Mr. O'HARA. Mr. Jung, you recognize, of course, that your proposals would involve pretty complete reopening of the program just as the proposals of the Office of Education would. Do you think it would be advisable for us to hear from some of the other interested parties before we take any such action, the student aid officers, the State guarantee agency, the private guarantee agencies, the bankers?

Mr. JUNG. What I am specifically suggesting, Mr. Chairman, is that a provision be put into the program which would allow States to do this.

Of course, if it were contemplated that this would become the program, then all these groups would have to be consulted.

I am simply urging that the committee consider putting in an option. If there are States that may want to move in that direction, the Congress could get some hard data after several years as to the advisability of extending it further based on the experience of those States that would do it. I am simply asking for more freedom.

Mr. O'HARA. In that regard you propose a rather limited sort of freedom It is a freedom to do certain things.

Don't you think that before we grant freedom to do certain things we ought to check with the other State guaranty agencies to find out if they want freedom to do those things or maybe some other things?

Mr. JUNG. Yes, if the committee would like to consider providing a whole area of freedom for everyone, that is fine. Under the proposal I am suggesting it calls for a very substantial State role. It would seem that the people to consult would not be financial aid officers, et cetera, but rather governors, State legislators, to see what kind of freedom they want.

It would seem from my very limited and parochial background that all too often the recommendations of bureaucrats in the States are the ones that Congress listens to rather than those in the States hat have the responsibility to make the decisions.

Mr. O'HARA. If the committee were to decide, perhaps mistakenly, that it could not move on proposals of this sort in time for the coming school year, would you favor leaving the program as it is for the next school year?

Mr. JUNG. No.

Mr. O'HARA. Would you favor legislation of the sort we have been discussing this morning, if we decide that we can't move this concept that you have presented?

Mr. JUNG. I think I share the concerns about the kinds of restrictiveness that the present law imposes on States and private lenders and financial aid officers. I also recognize, however, the flexibility of the present law that has not been used. That restriction is really artificial but it is perceived as real. I imagine a perceived problem that becomes a significant problem which does in fact hurt students, has to be dealt with.

Mr. O'HARA. You see, our problem is, and the reason for the precipitousness of these hearings, and they have been precipitous, is that we are confronted with a Senate amendment to a House bill and we are going to have to in some way come to terms with the Senate on that Senate amendment. It was my feeling that it would be advisable for us to look into the merits of the Senate amendment and perhaps an alternative proposal so that when we go to conference with the Senate we are in a position to discuss the matter on a rational basis.

I am not sure of what else we could do in a conference. You have a parliamentary problem. While it is not so that we are limited to the terms of the Senate amendment, or something between that and nothing, that is not exactly the parliamentary case, certainly if we chose to do something other than simply reject the Senate amendment there are some options open to us. I am not sure that in a parliamentary sense the options open to us are as broad as some of the suggestions that have been made. So, a lot depends on how strong the Senate would feel about their amendments as we went through a conference, what sort of assurances one could get for prompt consideration of other changes if that change were adopted, and so forth and so on.

I just want you to be aware of some of the problems that we confront.

Mr. **Dellenback.** I don't mean to bring the witness in other than as a pillar around which we have committee discussions on this point. We are not asking you to make decisions on parliamentary procedures in the Congress. But, on the point to which you have just testified, I note that in your testimony you deliberately talk of the very great importance of talking about the whole loan program as part of a picture.

You say to totally separate discussion from the broader issues is to guarantee a distorted result. I say to you that that is both, in this instance, a substantive point and a procedural point, in my opinion.

This goes to what the chairman is talking about. The chairman and I are both reaching for a desirable goal. We are a little bit concerned at the moment about the mechanics. If we, in the procedure which is now available to us, take a given step that is substantive in nature, you say it would guarantee a distorted result, and procedurally we may block further remodeling of the program. That is what worries me more than the specific instance of the moment. I want to see a much broader goal of the program and therefore rather than to just let your words—as you just gave them in response to the chairman's questions—stand alone, I quote back to you your own language which was the thrust of your initial testimony, and say to you that some of us feel that is directly involved in the mechanistic situation in which we find ourselves.

Mr. **Jung.** May I comment?

Mr. **O'Hara.** Go ahead.

Mr. **Jung.** I stand by my words. That is why I urged the subcommittee to consider this very small piece of enabling legislation so that there is some positive action in motion in order that the very serious problems of this program as they relate to the larger issues of student financing aren't lost, that something else is done besides putting a band aid on an arterial cut.

Mr. O'Hara. I will simply concluded by saying I wish we had done that in 1972 instead of letting somebody's red Corvette get in our eyes when we made a rather precipitous change in the system without considering some of the ramifications of it. I agree with your philosophy that one ought not to tinker with things that are established and working well. When we have introduced a new feature into the program that is working badly, I think it is worth considering going back to the system that was working well before we consider your full range of changes.

That is something we will have to discuss next week. I am hoping we can have a subcommittee meeting on Tuesday morning at which we can discuss this bill, and decide what our response will be. The Chair will be giving notices of that meeting right after we conclude today.

We thank you again, Mr. Jung, for coming before us. We have enjoyed hearing from you. We look forward to working with you on this program.

Mr. JUNG. Thank you, Mr. Chairman.

Mr. DELLENBACK. Just for the record, let me allude to a concern I have at the moment, and that deals with the nature of these hearings over these last 3 days. The cooperation with the Chair has really been something that I so much appreciate, and it has been so good that I don't intend to say anything in the record about the concern but merely to say I think this is a thing we also can discuss informally between us.

I want to go on the record as commending the chairman and expressing the minority's appreciation for what I think has been exemplary cooperation in almost everything he has done. We have had a very good relationship. I am sorry if any sort of confusion has arisen over the last couple of days.

Mr. O'HARA. Fine. Thank you very much.

Mr. JUNG. Thank you.

Mr. O'HARA. The committee will now stand in adjournment, to meet again on Tuesday morning.

[Whereupon, at 12:30 p.m., the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, Feb. 26, 1974.]

HIGHER EDUCATION LOAN PROGRAMS

TUESDAY, FEBRUARY 26, 1974

House of Representatives,
Special Subcommittee on Education
of the Committee on Education and Labor,
Washington, D.C.

The subcommittee met at 10:40 a.m., pursuant to notice, in room 2175, Rayburn House Office Building, Washington, D.C., Hon. James G. O'Hara (chairman of the subcommittee) presiding.

Present: Representatives O'Hara, Biaggi, Burton, Brademas, Gaydos, Lehman, Benitez, Dellenback, Erlenborn, Esch, Kemp, Quie, and Steiger.

Staff members present: Jim Harrison, director; A. C. Franklin, counsel; Elnora Teets, clerk; William F. Gaul, associate general counsel, full committee; Robert C. Andringa, minority staff director; and Charles W. Radcliffe, minority counsel.

Mr. O'Hara. The special subcommittee will come to order.

The purpose of our meeting today is to consider H.R. 12523 and proposed amendments to Section 428(a) of the Higher Education Act of 1965 and section 2(A)(7) of the Emergency Insured Act of 1969, all of which are directed toward assuring that students will have loans to meet their postsecondary education costs.

There have been a number of extensive discussions of these proposals among members of the subcommittee and with representatives of the U.S. Office of Education and with representatives of groups and organizations in the educational and financial communities who have bee ndeeply concerned with the subject before us.

We have tried very hard to arrive at some accommodations with respect to these matters, but have not been entirely succssful.

The Chair would like to begin with some discussion of the issues. For the purpose of discussion, the Chair would like to ask unanimous consent that the bill H.R. 12523 be considered as read and open to amendment at this point.

[H.R. 12523, 93d Cong., 2d sess.]

A BILL To amend section 428(a) of hte Higher Education Act of 1965, as amended, and section 2(a)(7) of the Emergency Insured Student Loan Act of 1969, to better assure that students will have reasonable access to loans to meet their postsecondary education costs, for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That clauses I and II of the first sentence of paragraph (1) of subsection (a) of section 428 of the Higher Education Act of 1965 are amended to read as follows:

"(I) less than $20,000, the amount of such loan would not cause the total amount of the student's loans under this part to exceed $2,000 in any academic year or its equivalent (as determined under regulations of the Commissioner), and the student has been accepted for enrollment at an eligible institution or, in the case of a student who is attending such an institution, is in good standing at such institution (as determined by the institution); or

"(II) less than $20,000 and the amount of such loan would cause the total amount of the student's loans under this part to exceed $2,000 in any academic year or its equivalent (as determined under regulations of the Commissioner), or equal to or more than $20,000, and the eligible institution at which the student has been accepted for enrollment, or in the case of a student who is attending such an institution, at which the student is in good standing (as determined by the institution) has determined that the student is in need of a loan to attend such institution; has determined, by means other than one formulated by the Commissioner of Education under part A, subpart 1, of this title, the amount of such need by subtracting from the estimated cast of attendance at such institution the expected family contribution with respect to such student plus any other resources or student aid reasonably available to such student; and has provided the lender with a statement evidencing the determinations made under this clause and recommending a loan in the amount determined to be needed.".

Sec. 2. Section 2(a)(7) of the Emergency Insured Student Loan Act of 1969 is amended by striking out "July 1, 1974" and inserting in lieu thereof "July 1, 1975".

Sec. 3 The amendments made by this Act shall be effective on and after July 1, 1974.

Mr. O'Hara. Without objection. it will be so ordered. The bill H.R. 12523 is now before us. Let me briefly describe H.R. 12523.

Prior to the 1972 amendments, the law with respect to guaranteed student loans provided that the interest-benefit, guaranteed, student loan would be availiable to any student from a family having an adjusted family income of $15,000 or less.

As a practical matter that meant for a family of four we were talking about taxable income of $20,000 or less.

The 1972 amendments provided that, with respect to students whose adjusted family incomes were under $15,000 the lender, before making the loan, would have to obtain from the educational institution, an estimate of the amount of the student's need. With respect to sudents whose adjusted family incomes were over $15,000 the lender would have to obtain from the institution both the estimated amount of the need and the determination there was, indeed, need for the loan.

There has been some dispute as to whether the way these provisions are interpretated carried out the legislative intent.

As a practical matter, lenders have been reluctant to make interest benefit loans in an amount in excess of the recommended amount which came from the educational institution. Because of the way traditional needs analysis operates, very often that recommended amount was zero, or very, very small. A number of students and their families have felt they have been unfairly denied a loan they need.

The proposal before us proposes to return to the situation which existed prior to the 1972 amendments, with some adjustments and exceptions.

One such adjustment would be to assume need for students with adjusted family incomes of less than $20,000 which, for a family of four, means a taxable income of something over $25,000. And instead of a $1,500 loan maximum, there would be $2,000 loan maximum for the year.

So those are the changes as proposed in the bill.

Now there has been some discussion as to what the amounts should be, whether we should be talking of family adjusted income of $15,000 or $20,000, and there has been some discussion as to whether the adjusted amount of the loan should be $2,000 or $1,500.

The Chair will recognize the gentleman from Indiana.

Mr. BRADEMAS. One aspect of the problem is addressed by the amendment originally proposed by the gentleman from Michigan fixing $20,000 as the adjusted family income and $2,000 as the limit on the amount of money. It seems to me, speaking as a cosponsor to the gentleman's amendment, that this was a sensible amendment given the very substantial rise in the cost of living in the past few years. It wouldn't be a good idea to retain the present figure in light of the inflationary problem and in light of what I am told is the fact, namely, that the average loan now made, the average loan, to repeat, is $1250.

If that is the case, Mr. Chairman, that indicates there must be a considerable number of loans made above that, and I would fear, if we went back to the figure of $1,500, we would only be instigating, stimulating, a good number of split loans. That is to say, loans with an interest subsidy. The present maximum is $2,500; is that correct?

Mr. O'HARA. Yes.

Mr. BRADEMAS. I think we don't want to be giving encouragement to a number of split loans both with interest subsidy and without it. I am not sure that is a wise policy.

I know there has been a feeling among members of the subcommittee on both sides of the aisle that we want to encourage the banks and credit unions to lend, we want to move away from financial aid officers simply looking at some of the standard tables compiled by national organizations in order to counsel students on how much money they ought to be getting from their own resources.

Therefore, I, for one, would like to see us move in the direction whereby the student deals directly with the lender, then subsequently, if he wants to make that information available to the institution, that is another matter.

I don't like the idea of intruding the financial aid office into the arrangements of the lender and the student.

It seems to me we could work out some informal arrangement with the Office of Education whereby a lender could advise the institution of the amount of the loan the lender had made simply by adding another sheet of carbon paper.

I think you, Mr. Chairman.

Mr. O'HARA. I thank the gentleman from Indiana.

I recognize the gentleman from Oregon.

Mr. DELLENBACK. Thank you.

Mr. Chairman and my colleagues, I see as a preliminary discussion some pro and con on what it is that the Senate has done with our basic Tydings bill. I must confess that had it not been for the action of the chairman of this subcommittee, I would be upset with the Senate in taking a bill which was relatively noncontroversial and adding substantive and controversial legislation on it. Because of what the chairman has done in calling attention to the issue, I think we are in the process of rectifying what otherwise might have been sloppy legislation in a very critical area.

We know the conferees in 1972 were divided initially as to what should be done in the way of a needs test. The conferees came out with what is presently in the legislation, and it was after some very warm debate in the conference. As you know, the conferees were not in 100 percent agreement when we took this particular step.

There has been some difference of opinion since we enacted the amendments in 1972 as to whether the practices that have been carried out were in complete conformity with what the conferees were striving to do.

Some feel very strongly that the Office of Education has done exactly what they were mandated to do by the legislation, and others feel they have not. In addition to that, there is divided opinion as to whether what is in existence is working well.

We have correspondence coming from some States where they feel very strongly the falloff in enrollments is directly traceable to what was done here in the way of the needs test below $15,000. On the other hand, we have correspondence stating there was a temporary sinking which has now been corrected. The figures for most recent months are above what they were. The argument made from these recent statistics is that we have gone through the valley of the shadow; the change in law is now getting out and the people are understanding it and beginning to work with it. There are different, divided reactions.

Anything we do now, Mr. Chairman, it seems to me, is going to be a mixed blessing. There would be some drawbacks if we went the way of either the Pell or O'Hara amendment.

So I see a complicated situation with an opportunity before us to do something to correct it. We have to be aware of all facets of the issue so that we don't find ourselves, in attempting to correct the law, moving to something that is worse.

I see the mechanics of the issue as a serious part of what we do. I think there is confusion out in the field as to what the law was and has been. Students are confused; lenders are confused. The net result is we find ourselves not only with theoretical, sociological questions, but we find ourselves with mechnical problems. We have to be very careful to guard against taking a step which will cause more mechanical confusion such that students and their families come out worse.

Now, it has been pointed out that we have been talking of various things we might do.

Mr. Chairman, I would like to offer for the consideration of my colleagues this proposal: I would propose, since we are not dealing with the Tydings-Pell situation, that we amend H.R. 12523 to go from the $20,000/$2,000 to the $15,000/$1,500 formula.

Page 1, beginning with line 6, strike out everything down through page line 6, and insert in lieu thereof the following:

(I) less than $15,000, the amount of such loan would not cause the total amount of the student's loans under this part to exceed $1,500 in any academic year or its equivalent (as determined under regulations of the Commissioner), and the eligible institution at which he has been accepted for enrollment (or, in the case of a student who is attending such an institution, at which he is in good standing, as determined by such institution) has provided the lender with a statement which sets forth the estimated cost of his attendance at such institution (which, for purposes of this paragraph, means, for the period for which the loan is sought, the tuition and fees applicable to such student together with its estimate of other expenses reasonably related to attendance at such institution for such a student, including the cost of room and board, reasonable commuting costs, and costs for books, and its estimate of the amount of assistance such student will receive (for the period for which the loan is sought) under parts A, C and E of this title and under any other scholarship, grant, or loan assistance:

Page 2, lines 7 and 11, strike out "$20,000" and insert in lieu thereof "$15,000".

Page 2, line 9, strike out "$2,000" and insert in lieu thereof "$1,500".

Sec. 2. Paragraph (1) of subsection (a) of section 428 of such Act by inserting before the second sentence thereof: "Nothing in this or any other Act shall be construed to prohibit a lender from evaluating the total financial situation of a student making application for a loan under this part, or from counseling a student with respect to any such loan, or from making a decision based on such evaluation and counseling with respect to the dollar amount of any such loan."

Mr. DELLENBACK. Now, you can make all sorts of philosophic arguments as to cost-of-living increases and why we should increase the figure, including the argument my colleague from Indiana has just made. Yet, I think the situation would be improved if we turn to the lending institutions and go back to where we were.

Second, that we add to the bill substantially this language: Nothing in this or any other act shall be construed to prohibit a lender from evaluating the total finances of a student, or from counseling a student with respect to any loan, or from making a decision based on any such evaluation or counseling with respect to the dollar amount of each loan.

I want to make it clear in the language of the bill that there is nothing to block a lender from doing these things.

Further, I would like us to include in the report that we don't want the Office of Education coming out with a new batch of rules interpreting this provision. Rather, we merely added this language to make it clear that this is not an OE decision, but a lender's decision. It will be up to the lender to determine.

Lastly, Mr. Chairman, I hope we can achieve a fair agreement on behalf of the Chair and the members of the committee that we will proceed as quickly as possible toward legislation in respect to the whole student aid package. I would like to see us go forward and examine all the various programs: the grants, work study, student loans, and so forth. This might be the best way out of the present situation which does hav drawbacks, and it might be the means by which we prevent falling into further traps and spinoffs that would make the present situation worse.

Mr. O'HARA. The gentleman from Oregon offers an amendment to first change the adjusted family income figure in the bill from $20,000 to $15,000, which means a taxable income in the case of a family of four of $20,000.

Secondly, to limit the amount of the loan which can be made without doing a needs analysis to $1,500.

Thirdly, to insert an additional provision in the bill which would state:

> Nothing in this or any other Act shall be construed to prohibit a lender from evaluating the total financial situation of a student making for a loan under this part, or from counseling a student with respect to any such loan, or from making a decision based on such evaluation and counseling with respect to the dollar amount of any such loan.

Let us treat the amendments one at a time.

Let the Chair put before the committee the first of those amendments, but let me very briefly respond to the gentleman's question, and that is, my only feeling about this amendment is that we do something now, immediately, that can be effective in a relatively short period of time, that will affect the program within the coming school year and affect the loans to be made in anticipation of the coming school year.

It is my intention to make a complete review by this spring and hope something will come out of the committee this session, with recommendations, whatever we think ought to be done with title IV, the entire student financial aid package, including the guaranteed student loan program.

I look at this as something we can do now which can be effective now.

The gentleman from Indiana.

Mr. **Brademas**. I think the gentleman from Oregon has made a step in the right direction, but I have a couple of reservations as to his proposal.

First of all, the gentleman from Oregon said whether we ought to stick with $2,500 or go to $1,500 is a matter of philosophy.

I think it is a matter of economics. We have seen about a 30 percent drop in real income in the past few years.

There is another reason. Some students have already made selections of the institutions at which they intend to study, based on the amount of the money they have been able to borrow. If you drop the figure now, they are freshmen now, and it wouldn't seem to me to be fair procedure.

So, I would be willing to support the rest of the gentleman's amendment, to the effect nothing in the statute should prohibit lenders from engaging in certain kinds of counseling and evaluation and so on, but then I think the gentleman from Oregon went on to state this language would have to be accompanied by strong language preventing the Office of Education from coming out with additional restrictions. I would support his additional amendment with that agreement.

I wonder if the gentleman from Oregon would agree to some substitute language which is essentially the same thing as that which he has proposed and which, Mr. Chairman. I should like now to read, which I would offer in the nature of a substitute:

> Page 1, beginning with line 3, strike out everything down through line 2 on page 3, and insert in lieu thereof the following: That clause I of the first sentence of paragraph (1) of subsection (a) of section 428 of the Higher Education Act of 1965 is amended to read as follows:
>
> (I) less than $15,000 and the eligible institution at which he has been accepted for enrollment (or, in the case of a student who is attending such an institution, at which he is in good standing, as determined by such institution) has provided the lender with a statement which sets forth the estimated cost of his attendance at such institution (which, for purposes of this paragraph, means, for the period for which the loan is sought, the tuition and fees applicable to such student together with its estimate of other expenses reasonably related to attendance at such institution for such a student, including the cost of room and board, reasonable commuting costs, and costs for books), and its estimate of the amount of assistance such student will receive (for the period for which the loan is sought) under parts A, C and E of this title and under any other scholarship, grant, or loan assistance; or

Mr. O'Hara. I thank the gentleman.

The situation is as follows: We have two amendments, the amendment from the gentleman from Oregon, which would provide for loans without any determination as to the amount of need or for students whose adjusted incomes are less than $15,000, provided the loan does not exceed $1,500.

The gentleman from Indiana has offered a substitute which would restrict the language without the limitation of $1,500 per annum loan, which would mean it is conceivable the loan could be as high as $2,500.

Mr. Brademas. Would the chairman yield?

Mr. O'Hara. Yes.

Mr. Brademas. I would like unanimous consent to add to my substitute agreement the language which the gentleman from Oregon read, which had to do with providing that no language in the bill shall prevent lenders from counseling with students, and so forth.

Mr. O'Hara. If the gentleman will hold his statement just a moment.

Mr. Brademas. I just want the gentleman from Oregon to know I would agree to include that language together with the language included in the committee report.

Mr. Quie. It is my understanding we will vote on these separately, so that the language the gentleman from Indiana spoke of will come up later.

Mr. O'Hara. Yes. The Chair would like very much to get the views of the gentleman from Minnesota on this amendment. The Chair is aware the gentleman from Minnesota worked very hard prior to the enactment of the 1972 amendments.

Mr. Quie. The most serious difficulty in the operation of the law right now is that it takes too blamed long to determine through a uniform method what is the expected family contribution for those below $15,000 adjusted family income. It's difficult for the student to secure the loan and to get lenders to participate in the loan. To me, that is the only serious difficulty.

To go all the way back where we were prior to 1972 does not make sense to me, because there were substantial abuses at that time, and they will occur this time unless something is done to correct that difficulty.

For that reason, I had proposed, as I discussed before, to notify the lender, instead of the institution, the amount of expected family contribution. In other words, require the student to let the lender know what he or his family has available.

I note from some information provided by the American Council on Education that of all nonblack students from families with incomes between $15,000 and $19,999, 57.4 percent used some of their own savings for educational expenses and 83.3 percent received financial aid from their parents. Of students from families with $8,000 to $10,000 income, 69.4 percent received financial aid from their parents. Forty-seven percent of the students from families with incomes between $3,000 and $4,000 used savings for education and 5 3percent received aid from parents.

It seems that since money is available—incidentally, parttime work runs from 65 percent to 75 percent in that income group—to the students and from the parents at the income levels below $15,000 adjusted gross, the lender ought to be able to know what is available from that source instead of their throwing the whole thing out as proposed by the amendment. If it is adopted we go back to the abuses that make it difficult for this program to operate.

I might read the language:

> . . . and such student has provided the lenders with a statement which sets forth the amount of the financial assistance from his family or which he expects to provide from his own resources.

This is my feeling. I agree with the gentleman from Michigan that there are a number of other areas to be covered. I appreciate his willingness to work on that later, and I think we should have extensive hearings as to what ought to be done to make any extensive corrections.

The difficulty the students are faced with for this coming school year is the correction of the problem which occurred in the past. Every family does not fit in with what is the expected family contribution.

Mr. O'HARA. The gentleman's point with respect to whether or not the student furnishes the lender a statement as to what he expects to receive from his family or himself is really dealt with more closely in the second Dellenback amendment. I would think, if the subcommittee felt inclined to do so, it could change the second Dellenback amendment to something which would require that to be done.

Mr.. QUIE. It is all right with me to separate the issues.

Mr. O'HARA. The question before us deals with the Dellenback amendment. Mr. Dellenback has proposed that we amend the bill to provide for loans without a determination of need, to students having adjusted family incomes less than $15,000 as long as the loan does not exceed $1,500.

Mr. Brademas has proposed a substitute amendment striking the loan size limitation.

Mr. DELLENBACK. I think the gentleman from Indiana and I are reaching in the same direction and want the same ultimate goal. Quite frankly, one of the things I am going to urge is that we completely eliminate the limitation in conjunction with a series of other allied proposals.

I think, however, partly because of the mechanics of the situation—as I read it—less confusion will result if we go to a 15/15. It will prove more workable at the present time, and in the long run we can make further major modifications to this program.

Mr. O'HARA. The question recurs on the Brademas amendment to the Dellenback amendment.

Those in favor will say aye.

Opposed, no.

The Clerk will call the roll.

The CLERK. Mr. O'Hara.

Mr. O'HARA. Aye.

The CLERK. Mr. Biaggi.

Mr. BIAGGI. Aye.

The CLERK. Mr. Burton.

Mr. O'Hara. Aye, by proxy.

The Clerk. Mr. Brademas.

Mr. Brademas. Aye.

The Clerk. Mr. Gaydos.

Mr. Gaydos. Aye.

The Clerk. Mr. Andrews.

Mr. Andrews. [No answer.]

The Clerk. Mr. Lehman.

Mr. Lehman. Aye.

The Clerk. Mr. Benitez.

Mr. Benitez. Aye.

The Clerk. Mr. Dellenback.

Mr. Dellenback. No.

The Clerk. Mr. Erlenborn.

Mr. Erlenborn. No, by proxy.

The Clerk. Mr. Esch.

Mr. Esch. No.

The Clerk. Mr. Kemp.

Mr. Kemp. [No reply.]

The Clerk. Mr. Huber.

Mr. Huber. [No reply.]

The Clerk. Mr. Quie.

Mr. Quie. No. Mr. Kemp votes no by proxy.

Mr. O'Hara. I have Mr. Andrews' proxy. He votes aye.

The Clerk. Eight ayes, and five no.

Mr. O'Hara. The vote is 8 to 5 in favor of the Brademas substitute.

The question now comes on the adoption of the Dellenback amendment as amended by Mr. Brademas.

All those in favor, say aye.

Opposed, no.

It is adopted.

The Dellenback amendment as amended by the Brademas substitute, has been agreed to.

Mr. Brademas. Mr. Chairman, as I had earlier indicated, if my amendment were adopted, I would adopt the language of an amendment originally offered by Mr. Dellenback, section 2, paragraph 1:

> Nothing in this or any other act shall be construed to prohibit a lender from evaluating the total finances of, or from counseling, a student with respect to any loan or from making a decision based on any such decision or counseling with respect to dollar amount of each loan.

Coupled with language in the report, Mr. Chairman, to be agreed upon which would make it very clear the Office of Education, to coin a phrase, is not to stick its cottonpicking hands into matters dealing with this section.

Mr. O'Hara. The gentleman from Indiana has spoken with his usual clarity.

The gentleman from Minnesota.

Mr. Quie. I would offer a substitute to that, added on to the first Dellenback amendment which was adopted after the Brademas' language was substituted for it.

> "Strike the final word from section 1 of the bill, as amended, and insert in lieu thereof, the following:

"and such student has provided the lender with a statement which sets forth the amount of financial assistance which he expects to receive from his family or which he expects to provide from his own resources; or".

To merely say that nothing is to prohibit the lender from securing that information really does not add anything to it, as I see it, because there is nothing prohibiting him now, as I can see it, from obtaining the information from the student.

It seems to me, if we are going to be able to check to see if this program is working well, or anyone else is going to be able to determine this, we would need that information.

I don't think this will be an onerous task on the student to tell the lending institution what he or his family is going to provide. More than half of the students at that level are receiving subsistence from their parents and about three-fourths of them have done work which makes funds available.

Mr. **Brademas**. Mr. Chairman, I would oppose the amendment for two reasons.

The activity the amendment will require is already possible, as the gentleman has already quite accurately indicated.

Second, representatives from the American Bankers Association have already indicated their unhappiness with legislation to write into law something which will incur more paperwork.

Second, I don't think it would be a wise amendment because, again, writing it in would be that much more of an invitation to the Office of Education, whichought to be preoccupying itself with other matters, to be dreaming up other rules, regulations and red tape.

So, I would hope for all those reasons the gentleman's amendment is defeated.

Mr. **Dellenback**. Do I understand, John, you are proposing to take the language as I suggested it? Then, we will have an understanding that there be in the report the additional language which would do the things——

Mr. **Brademas**. The gentleman is right.

Mr. **Dellenback**. It would not change any language?

Mr. **Brademas**. That is right.

Mr. **Dellenback**. While I agree with the gentleman on that point, I do not agree with the gentleman on some of the implications insofar as the Office of Education is concerned. I don't want them either, in this particular instance, making those particular regulations. However, it does not grow out of any kind of indictment against the Office of Education for past practices.

I must take this occasion to commend Commissioner Ottina and his staff for real efforts in cooperating with this committee and subcommittee. The Commissioner, himself, has come over here for this purpose while we try to talk through what would be desirable on this issue. This statement reflects my own experience with the Office of Education, particularly recently.

Mr. **Brademas**. Will the gentleman yield?

Mr. **Dellenback**. Yes.

Mr. **Brademas**. At no point did I say, in justifying my own observation, that I would engage in any indictment, sweeping or limited, of the Office of Education. I love the Office of Education; some of my best friends work for the Office of Education, and I have had them in my home.

Mr. QUIE. Mr. Chairman.

Mr. O'HARA. The gentleman from Minnesota.

Mr. QUIE. As I understand the way this would operate, the bankers would have the advantage of going to the student and saying, "If your parents will take the amount of money normally contributed to your education and deposit it in our bank, we will make the loan."

If this is the case, we would be back where we were in prior-1972. Would that be correct?

Mr. O'HARA. It would certainly be possible under the law just as it is possible now for a bank to make its loan assistance contingent upon certain actions by the parents and the student, including the making of deposits or transferring of a business account.

I don't think it is prohibited in present law or under this one, except as regard SLMA participation.

Mr. BRADEMAS. In view of what the gentleman from Minnesota has said, I certainly wouldn't want to accuse him of a sweeping indictment of the American Bankers.

Mr. QUIE. I find it kind of amusing that we now say the bankers will pass their own rules. The bankers don't have to get eelcted; they can take the money and use it however they want to.

Mr. O'HARA. The gentleman from Oregon.

Mr. DELLENBACK. Do I understand that what is now pending before us is my second amendment?

Mr. O'HARA. The situation is as follows: If the gentleman will permit the Chair to state the parliamentary situation.

We have before us an amendment offered to us by the gentleman from Indiana, Mr. Brademas, which the Chair understands is the same amendment the gentleman from Oregon, Mr. Dellenback, described in his earlier remarks.

That amendment has the effect of making it clear that lenders may evaluate the total financial situation of the student and counsel, before determining whether to make the loan or not.

The gentleman from Minnesota, Mr. Quie, has offered a substitute which would add language, requiring that in order to obtain one of these loans, he has to set forth the amount of the financial assistance he expects to receive from his family.

All those in favor of the Quie substitute, say aye.

Not in favor, no.

The no's have it.

Mr. DELLENBACK. Further parliamentary inquiry.

Mr. O'HARA. The no's have it, and the Quie substitute is not agreed to.

Mr. DELLENBACK. Does that mean it is my amendment which now bears the Brademas name?

Mr. O'HARA. The Chair will not state that, what we have before us is the Dellenback amendment, offered by Mr. Brademas. It is an even trade. The first one Mr. Brademas was going to offer was the Dellenback amendment.

Mr. DELLENBACK. Off the record, would the gentleman from Indiana be interested in a trade?

Mr. Brademas. The gentleman from Indiana is very happy with the present situation under which he hopes he will be able to go to conference.

Mr. O'Hara. The question recurs on the Dellenback amendment as offered by Mr. Brademas.

In favor, say aye.

Opposed no.

The ayes have it.

The Chair has a conforming amendment it would like to put before the subcommittee. The Chair offers a conforming amendment which is now being distributed.

> On page 3, add after line 2:
>
> "Sec. 2. Subparagraph (H) of paragraph 428(b)(1) of the Higher Education Act of 1965 is amended to read as follows:
>
> " '(H) provides that the benefits of the loan insurance program will not be denied any student who is eligible for interest benefits under section 428(a)(1) except in the case of loans made my an instrumentality of a State or eligible institution;.' "
>
> and renumber sections 2 and 3 as sections 3 and 4 respectively.

The Chair would ask staff to explain this technical amendment.

Mr. Harrison. In Section 428(b)(1)(H) of the act, there is language which provides that any student "who has been determined to be in need" of a loan shall not be denied certain other benefits of the act. Since the amendment adopted earlier by the subcommittee eliminates "need determination" from the act for those students covered by the amendment, this pending amendment would simply conform the language by removing reference to "determination of need" and inserting the phrase "students eligible for interest benefits." It would make no substantive change.

Mr. O'Hara. All those in favor, say aye.

All those opposed, no.

The ayes have it.

Mr. Esch. I have an amendment I would like to offer at the present time. This might be, for want of a better term, the Wisconsin amendment, but I wouldn't want to prejudice it.

> Sec. ——. The Commissioner of Education is authorized to provide technical assistance to any State which wishes to develop a comprehensive State plan to assure the availability of guaranteed student loans, which would benefit from Federal insurance, to residents of its State. State plans may include such features as the use of State capital for making loans, variable repayment schedules over more than 10 years, income contingency repayment schedules, subsidies during repayment where necessary, and other modifications that go beyond the current Federal program but which could, with appropriate congressional authorization, be incorporated as part of a national system of guaranteed student loans.

The States have had difficulty obtaining specific technical assistance from the Commissioner of Education in the development of their comprehensive plans. I fully realize the Chairman's intent to take up the total question of student assistance later this year, however, the purpose of this amendment would be to allow the Office of Assistance to enable States to move ahead in establishing a comprehensive plan.

I would point out to the committee that this, in no way, goes beyond the intent of the committee or Congress in and does not establish programs without specific congressional authorization. Thus, it wouldn't in any way preempt or predict what future programs might be developed by this Congress and this committee.

What it would do would be to provide a continuation of development and continuity, for those States which have effective programs and offer technical assistance. It is not mandatory, and it would give the Office of Education an opportunity to become involved with the States. I believe it is a necessary step to move ahead on the basis of State and Federal cooperation.

Mr. O'HARA. Will the gentleman yield to me?

Mr. ESCH. Yes.

Mr. O'HARA. The Chair has mixed emotions abou tthis. I want to get into the hearings on student assistance provisions, all of title IV, as quickly as possible. At that time I hope we will be getting suggestions as to new authorities, useful in expanding these programs. I hope the Office of Education will work with the State Loan Guaranty Agencies in developing these proposals, but I don't want to get into these new concepts in this bill.

Mr. ESCH. I appreciate very much the Chairman's intent to move ahead rapidly. I know, also, there is another body of Congress that may not move as quickly. It may be a year or 2 years before we finalize that action.

I would like to yield to my colleague from Wisconsin.

Mr. O'HARA. The gentleman from Wisconsin.

Mr. STEIGER. I am mindful of the chairman's ambivalance on this proposal. I will make just three points:

One, the subcommittee had testimony, as the chairman and the gentleman from Oregon know, from the Wisconsin Student Loan Guaranty Agency, headed by Jim Jung. They talked about the Wisconsin plan and the income contingency repayment concept, the one which requires lead time, and I believe careful analysis by the Congress and by everybody in the field on the question of whether or not you get into that program. So this is not a new subject.

Second, the point of the gentleman from Michigan is so valid that I really think if we are not careful we will be delaying the States able to do the job.

I don't know whether or not they will, but I will urge this concept as contained in this amendment in no way precludes any analysis of any of the student loan programs.

Third, it does seem to me, as you look down the road, the effort of this amendment, carefully drawn as it is, is trying to draw, in effect, a supplement to the work this committee will undertake. I don't see it as being something that disrupts the basic concepts of the bill. I do see it as being helpful to those States, Minnesota, Wisconsin and a couple of States in the South are taking a look at these programs, and I urge the committee to consider the wisdom of allowing the Office of Education to move ahead as well as states as you examine the whole of the student program so we don't find ourselves 1½ or 2 years from now, trying to catch up.

Mr. BRADEMAS. The gentleman from Wisconsin said he had three reasons he is in favor of this amendment. I have three as to why I am against it.

First of all, when we go into conference, the language and subject matter of the amendment offered by the gentleman from Michigan are really extraneous.

The second reason is this: there is nothing that would prohibit the State of Wisconsin, Michigan, or Indiana from going ahead and developing their own program of income contingent repayments.

Why not, with all the cornucopia of wealth poured out on our States, why don't they use some State money? States are in better financial position than the Federal Government, anyway. I would like to see a little less yearning for Federal dollars to help States already in good shape.

I say that with only half my tongue in cheek, Mr. Chairman.

The third reason I am unhappy about it, I don't want to have the nose of the Yale bulldog under the tent at this time, for the chairman has repeatedly made clear he intends to make a comprehensive review of student loan policies, and it seems to me it would be most unwarranted at this time to give a seal of approval to concepts which really have not been studied in any depth by the subcommittee.

So I would hope very much, Mr. Chairman, that we would leave for objective analysis at a subsequent point in time the subject matter of the amendment in question.

Mr. O'Hara. Those in favor of the amendment offered by Mr. Esch, say aye.

Those opposed, no.

The no's appear to have it. The no's have it. The amendment is not agreed to.

The Chair has an amendment relating to the effective date, as follows:

> Sec. 3. The amendments made by section 1 shall be effective 60 days after enactment of this act and be applicable to a loan for which a guarantee commitment is made on or after that date.

The Chair hears no objection, the amendment is agreed to.

Any further amendments?

Those in favor of reporting H.R. 12523, as amended, say aye.

Those opposed, no.

The ayes have it, and the bill is ordered reported.

The Chair will now accept a motion to adjourn.

Mr. Brademas. So moved.

Mr. O'Hara. The subcommittee stands adjourned subject to the call of the Chair.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX A

H.R. 12523, 93d Congress, second session, as reported by the Special Subcommittee on Education to the Committee on Education and Labor on February 26, 1974; changes in existing law proposed to be made by H.R. 12523; and a section-by-section analysis of H.R. 12523.

[COMMITTEE PRINT]

SHOWING CHANGES
IN
EXISTING LAW
PROPOSED TO BE MADE
BY
THE SUBCOMMITTEE AMENDMENT TO H.R. 12523, 93d Congress
AND
A SECTION-BY-SECTION ANALYSIS THEREOF

MARCH 1, 1974

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1974

31-416 O - 74 - 24

CHANGES IN EXISTING LAW MADE BY THE BILL AS REPORTED

In compliance with Rule 18 of the Committee on Education and Labor, changes in existing law made by the Subcommittee amendment to H.R. 12523 are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

HIGHER EDUCATION ACT OF 1965

TITLE IV—STUDENT ASSISTANCE

* * * * * * *

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 428. (a)(1) Each student who has received a loan for study at an eligible institution—

(A) which is insured by the Commissioner under this part;

(B) which was made under a State student loan program (meeting criteria prescribed by the Commissioner), and which was contracted for, and paid to the student, within the period specified by paragraph (4); or

(C) which is insured under a program of a State or of a nonprofit private institution or organization which was contracted for, and paid to the student, within the period specified in paragraph (4), and which—

(i) in the case of a loan insured prior to July 1, 1967, was made by an eligible lender and is insured under a program which meets the requirements of subparagraph (E) of subsection (b)(1) and provides that repayment of such loan shall be in installments beginning not earlier than sixty days after the student ceases to pursue a course of study (as described in subparagraph (D) of subsection (b)(1)) at an eligible institution, or

(ii) in the case of a loan insured after June 30, 1967, is insured under a program covered by an agreement made pursuant to subsection (b),

shall be entitled to have paid on his behalf and for his account to the holder of the loan a portion of the interest on such loan (in accordance with paragraph (2) of this subsection) only if at the time of execution of the note or written agreement evidencing such loan his adjusted family income is—

(I) [less than $15,000 and the eligible institution at which he has been accepted for enrollment or, in the case of a student who is attending such an institution, at which he is in good standing (as determined by such institution)—

(α) has determined the amount of need for such loan by subtracting from the estimated cost of his attendance at such institution (which, for purposes of this paragraph, means the cost, for the period for which the loan is sought, of tuition, fees, room and board, and reasonable commuting costs) the expected family contribution with respect to such student plus any other resources or student aid reasonably available to such student, and

(β) has provided the lender with a statement evidencing the determination made under clause (I) (α) of this paragraph and recommending a loan in the amount of such need; or]

less than $15,000 and the eligible institution at which he has been accepted for enrollment (or, in the case of a student who is attending such an institution, at which he is in good standing, as determined by such institution) has provided the lender with a statement which sets forth the estimated cost of his attendance at such institution (which, for purposes of this paragraph, means, for the period for which the loan is sought, the tuition and fees applicable to such student together with its estimate of other expenses reasonably related to attendance at such institution for such a student, including the cost of room and board, reasonable commuting costs, and costs for books), and its estimate of the amount of assistance such student will receive (for the period for which the loan is sought) under parts A, C and E of this title and under any other scholarship, grant, or loan assistance; or

(II) equal to or more than $15,000 and the eligible institution at which he has been accepted for enrollment or, in the case of a student who is attending such an institution, at which he is in good standing (as determined by such institution)—

(α) has determined that he is in need of a loan to attend such institution,

(β) has determined the amount of such need by subtracting from the estimated cost of attendance at such institution the expected family contribution with respect to such student plus any other resources or student aid reasonably available to such student, and

(γ) has provided the lender with a statement evidencing the determination made under clause (II) (β) of this paragraph and recommending a loan in the amount of such need.

Nothing in this or any other Act shall be construed to prohibit a lender from evaluating the total financial situation of a student making application for a loan under this part, or from counseling a student with respect to any such loan, or from making a decision based on such evaluation and counseling with respect to the dollar amount of any such loan. In addition, the Commissioner shall pay an administrative cost allowance in the amount established by paragraph (2)(B) of this subsection with respect to loans to any student without regard to the borrower's need. For the purposes of this paragraph, the adjusted family income of a student shall be determined pursuant to regulations of the Commissioner in effect at the time of the execution of the note or written agreement evidencing the loan. Such regulations shall provide for taking into account such factors, including family size, as the Commissioner deems appropriate. In the absence of fraud by the lender, such determination of the need of a student under this paragraph shall be final insofar as it concerns the obligation of the Commissioner to pay the holder of a loan a portion of the interest on the loan.

* * * * * * *

(b)(1) Any State or any nonprofit private institution or organization may enter into an agreement with the Commissioner for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Commissioner determines that the student loan insurance program—

* * * * * * *

(H) [provides that the benefits of the loan insurance program will not be denied any student who has been determined (pursuant to section 428(a)(1)) to be in need of a loan except in the case of loans made by an instrumentality of a State or eligible institution;] *provides that the benefits of the loan insurance program will not be denied any student who is eligible for interest benefits under section 428(a)(1) except in the case of loans made by an instrumentality of a State or eligible institution;*

Emergency Insured Student Loan Act of 1969

* * * * * * *

INCENTIVE PAYMENTS ON INSURED STUDENT LOANS

SEC. 2. (a) * * *

* * * * * * *

(7) As used in this Act, the term "eligible loan" means a loan made on or after August 1, 1969, and prior to [July 1, 1974] *July 1, 1975,* which is ensured under title IV–B of the Higher Education Act of 1965 or made under a program covered by an agreement under section 428(b) of such Act.

SECTION-BY-SECTION ANALYSIS

(This analysis is of the text of the subcommittee amendment to H.R. 12523 as approved by the Special Subcommittee on Education on February 26, 1974.)

Section 1 amends clause I of the first sentence of paragraph (1) of subsection (a) of section 428 of the Higher Education Act to provide that interest benefits under such section shall be provided to borrowers whose adjusted family income is less than $15,000, and the eligible institution at which he has been accepted for enrollment, or at which he is a student in good standing, has provided the lender with a statement which sets forth the estimated cost of his attendance at such institution (which, for purposes of this provision means, for the period for which the loan is sought, the tuition and fees applicable to such student, together with the institution's estimate of other expenses reasonably related to attendance at such institution for such a student, including the cost of room and board, reasonable commuting costs and costs for books), and the institution's estimate of the amount of assistance such student will receive (for the period for which the loan is sought) under the Basic Educational Opportunity Grant Program, the Supplemental Educational Opportunity Grant Program, the College Work-Study Program, the National Direct Student Loan Program, or under any other scholarship, grant or loan assistance.

Section 2 further amends Section 428(a)(1) by adding after the first sentence thereof a provision that nothing in the Act, or in any other Act shall be construed to prohibit a lender from evaluating the total financial situation of a student making application for a loan under this program, or from counseling a student with respect to any such loan, or from making a decision based on such evaluation and counseling with regard to the size of any such loan.

Section 3 conforms the language of subparagraph (1)(H) of subsection 428(b) to the language of Section 1 of this bill, by removing a reference to "any student who has been determined . . . to be in need of a loan" and substituting a reference to "any student who is eligible for interest benefits".

Section 4 amends Section 2(a)(7) of the Emergency Insured Student Loan Act of 1969, which gives the Secretary of Health, Education and Welfare authority to set the "special allowance" payment to lenders, by extending its expiration date from June 30, 1974 to June 30, 1975.

Section 5 provides that the amendments made by this bill shall be effective 60 days after its enactment, and shall be applicable for any loan for which a guarantee commitment is made on or after that date.

[COMMITTEE PRINT]

FEBRUARY 28, 1974

Union Calendar No.

93D CONGRESS
2D SESSION

H. R. 12523

[Report No. 93–   ]

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 1974

Mr. O'HARA (for himself, Mr. BIAGGI, Mr. BURTON, Mr. BRADEMAS, Mr. GAYDOS, Mr. ANDREWS of North Carolina, Mr. LEHMAN, and Mr. BENITEZ) introduced the following bill; which was referred to the Committee on Education and Labor

FEBRUARY   , 1974

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To amend section 428 (a) of the Higher Education Act of 1965, as amended, and section 2 (a) (7) of the Emergency Insured Student Loan Act of 1969, to better assure that students will have reasonable access to loans to meet their postsecondary education costs, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, ~~That clauses I and II of the first sentence of paragraph (1) of subsection (a) of section 428 of the Higher Education Act of 1965 are amended to read as follows:~~

~~"(I) less than $20,000, the amount of such loan would not cause the total amount of the student's loans under this part to exceed $2,000 in any academic year or its equivalent (as determined under regulations of the Commissioner), and the student has been accepted for enrollment at an eligible institution or, in the case of a student who is attending such an institution, is in good standing at such institution (as determined by the institution); or~~

~~"(II) less than $20,000 and the amount of such loan would cause the total amount of the student's loans under this part to exceed $2,000 in any academic year or its equivalent (as determined under regulations of the Commissioner), or equal to or more than $20,000, and the eligible institution at which the student has been accepted for enrollment, or in the case of a student who is attending such an institution, at which the student is in good standing (as determined by the institution) has determined that the student is in need of a loan to attend such institution; has determined, by means other than one formulated by the Commissioner of Education under part A, subpart 1, of this title, the amount of such need by subtracting from the estimated cost of attendance at such institution the expected family contribution with respect to such student plus any other resources or~~

~~student aid reasonably available to such student; and has provided the lender with a statement evidencing the determinations made under this clause and recommending a loan in the amount determined to be needed.".~~

~~SEC. 2. Section 2(a)(7) of the Emergency Insured Student Loan Act of 1969 is amended by striking out "July 1, 1974" and inserting in lieu thereof "July 1, 1975".~~

~~SEC. 3. The amendments made by this Act shall be effective on and after July 1, 1974.~~

That clause I of the first sentence of paragraph (1) of subsection (a) of section 428 of the Higher Education Act of 1965 is amended to read as follows:

"(I) less than $15,000 and the eligible institution at which he has been accepted for enrollment (or, in the case of a student who is attending such an institution, at which he is in good standing, as determined by such institution) has provided the lender with a statement which sets forth the estimated cost of his attendance at such institution (which, for purposes of this paragraph, means, for the period for which the loan is sought, the tuition and fees applicable to such student together with its estimate of other expenses reasonably related to attendance at such institution for such a student, including the cost of room and board, reasonable commuting costs, and costs for books), and its estimate of the amount of

assistance such student will receive (for the period for which the loan is sought) under parts A, C, and E of this title and under any other scholarship, grant, or loan assistance; or".

SEC. 2. Paragraph (1) of subsection (a) of section 428 of the Higher Education Act of 1965 is amended by inserting before the second sentence thereof "Nothing in this or any other Act shall be construed to prohibit a lender from evaluating the total financial situation of a student making application for a loan under this part, or from counseling a student with respect to any such loan, or from making a decision based on such evaluation and counseling with respect to the dollar amount of any such loan.".

SEC. 3. Subparagraph (H) of paragraph 428(b)(1) of the Higher Education Act of 1965 is amended to read as follows:

"(H) provides that the benefits of the loan insurance program will not be denied any student who is eligible for interest benefits under section 428(a)(1) except in the case of loans made by an instrumentality of a State or eligible institution;".

SEC. 4. Section 2(a)(7) of the Emergency Insured Student Loan Act of 1969 is amended by striking out "July 1, 1974" and inserting in lieu thereof "July 1, 1975".

SEC. 5. The amendments made by section 1 shall be effective sixty days after enactment of this Act and be applicable to a loan for which a guarantee commitment is made on or after that date.

APPENDIX B

Statistics Regarding the Guaranteed Student Loan Program prepared by the U.S. Office of Education Submitted for the Record at the Request of the Special Subcommittee on Education.

GUARANTEED STUDENT LOAN PROGRAM, MONTHLY LOAN VOLUMES

	Federal		Guarantee agencies [1]		Totals		Percent increase same period prior year
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	
Fiscal year 1971:							
July	45,767	$43,551,840	80,963	$85,128,051	126,730	$128,679,891	
August	54,053	60,054,069	119,884	127,858,456	173,937	187,912,525	
September	86,229	91,366,140	103,150	97,084,428	189,379	188,450,568	
October	37,018	40,226,998	42,549	36,962,159	79,567	77,189,157	
November	32,647	33,910,561	18,968	18,572,624	51,615	52,483,185	
December	31,144	30,717,714	22,755	21,131,323	53,899	51,849,037	
January	33,074	26,928,099	26,061	22,364,806	59,135	49,292,905	
February	27,135	24,093,777	20,372	17,544,943	47,507	41,638,720	
March	30,559	27,470,276	15,613	13,652,364	46,172	41,122,640	
April	27,743	25,478,249	10,801	10,307,903	38,544	35,786,152	
May	33,460	31,355,669	17,294	18,835,634	50,754	50,191,303	
June	48,306	48,745,447	54,349	60,597,646	102,655	109,343,093	
Total	487,135	483,898,839	532,759	530,040,337	1,019,894	1,013,939,176	
Direct State			61,392	28,922,741	61,392	28,922,741	
Combined totals			594,151	558,963,078	1,081,286	1,042,861,917	
Adjusted totals [2]				560,034,712		1,043,933,551	

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GUARANTEED STUDENT LOAN PROGRAM, MONTHLY LOAN VOLUMES—Continued

	Federal		Guarantee agencies [1]		Totals		Percent increase same period prior year	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount		
Fiscal year 1972:								
July	63,383	71,893,591	89,159	102,200,512	152,542	174,094,103	35.3	
August	99,257	112,512,348	126,969	143,277,904	226,226	255,790,252	36.1	
September	100,348	109,303,975	83,488	89,966,168	183,836	199,270,143	5.7	
October	56,931	60,801,464	38,751	41,765,920	95,682	102,567,384	32.9	
November	48,019	49,095,021	22,903	23,565,908	70,922	72,660,929	38.4	
December	47,093	45,176,705	25,961	24,833,364	73,054	70,010,069	35.0	
January	44,194	40,313,333	30,205	26,935,560	74,399	67,248,893	36.4	
February	42,744	39,934,598	22,213	20,304,543	64,957	60,239,141	44.7	
March	42,793	39,775,782	15,799	14,577,197	58,592	54,352,979	32.2	
April	36,532	33,655,580	9,799	9,590,466	46,331	43,246,046	20.8	
May	48,771	44,328,177	17,902	19,305,855	66,673	63,634,032	26.8	
June [3]	61,809	61,373,171	57,400	68,370,677	119,209	129,763,848	18.7	
Total	691,874	708,163,745	540,549	584,694,074	1,232,423	1,292,857,819	27.5	
Direct State			23,876	8,718,904	23,876	8,718,904	−69.9	
Combined totals [4]			564,425	593,412,978	1,256,299	1,301,576,205	24.7	
Cumulative since inception	1,875,435	1,830,013,049	3,065,381	2,803,674,156	4,940,816	4,633,687,205		
							1973	1972
Fiscal year 1973:								
July	30,475	32,075,196	31,125	38,626,032	61,600	70,701,228	−59.6	−59.4
August	25,702	28,462,633	77,993	92,682,401	103,695	121,145,034	−54.2	−52.6
September	111,647	126,891,030	128,076	150,303,944	239,723	277,194,974	30.4	39.1
October	111,803	133,836,014	64,269	75,180,252	176,072	209,016,266	84.0	103.8
November	62,230	67,751,604	33,549	37,708,395	95,779	105,459,999	35.0	45.1
December	43,632	44,523,471	28,656	30,587,546	72,288	75,111,017	−1.1	7.3
January	46,752	46,424,470	32,598	32,203,602	79,350	78,628,072	6.7	16.9
February	45,488	45,332,681	25,486	24,815,794	70,974	70,148,475	9.3	16.4
March	23,794	23,588,160	8,378	8,012,356	32,172	31,600,516	−45.1	−41.9

April	17, 269	18, 778, 843	5, 270	5, 215, 918	22, 539	23, 994, 761	−51.4	−44.5
May	33, 514	34, 751, 833	9, 795	10, 531, 083	43, 309	45, 282, 916	−35.1	−28.8
June	46, 779	52, 199, 864	23, 716	29, 567, 867	70, 495	81, 767, 731	−40.9	−37.0
Total	599, 085	654, 615, 799	468, 911	535, 435, 190	1, 067, 996	1, 190, 050, 989	−13.4	−8.0
Direct State			20, 290	8, 472, 259	20, 290	8, 472, 259	−15.0	−2.8
Total			489, 201	543, 907, 449	1, 088, 286	1, 198, 523, 248	−13.4	−7.9
							1974	1972[4]
Fiscal year 1974:								
July	46, 750	58, 643, 001	43, 199	56, 841, 480	89, 949	115, 484, 481	−41.0	−33.7
August	58, 455	72, 711, 932	90, 200	116, 090, 212	148, 655	188, 802, 144	−34.3	−26.2
September	55, 495	70, 479, 598	71, 767	91, 617, 585	127, 262	162, 097, 183	−30.8	−18.7
October	56, 662	70, 721, 895	47, 195	59, 810, 149	103, 857	130, 532, 044	8.5	27.3
November	58, 234	72, 225, 612	30, 826	38, 416, 050	89, 060	110, 641, 662	25.6	52.3
December	34, 051	39, 829, 392	23, 404	28, 135, 003	57, 455	67, 964, 395	−21.4	−2.9
January	42, 517	48, 919, 472	27, 485	[5] 30, 493, 910	70, 007	79, 413, 382	−5.9	−18.1
February								
March								
April								
May								
June								
Total (7 months)	352, 164	433, 530, 902	334, 076	421, 404, 389	686, 240	854, 935, 291		
Direct State			14, 067	7, 044, 098	14, 067	7, 044, 098		
Total			348, 143	428, 448, 487	700, 307	861, 979, 389		
Cumulative since inception	2, 826, 684	2, 918, 159, 750	3, 902, 725	3, 776, 030, 092	6, 729, 409	6, 694, 189, 842		

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[1] Monthly totals do not include loans made under direct State programs.

[2] Sum of monthly and State totals differ due to adjustments made in cumulative fiscal year total.

[3] June 1972 reflects adjustments made in previous months.

[4] Wisconsin Direct State loans made after July 1, 1973 are guaranteed. For comparability with prior fiscal years, we will continue to exclude the Wisconsin direct State loans from the monthly guarantee agency volume.

[5] Preliminary—data based on oral figures.

[6] Fiscal year 1972 figures used for comparison due to irregular patterns caused by implementation of the 1972 Education Amendments.

GUARANTEED STUDENT LOAN PROGRAM, VOLUME UNDER EDUCATION AMENDMENTS OF 1972, MAR. 1, 1973 TO JAN. 31, 1974, COMPARED TO SAME PERIOD UNDER PREEXISTING LAW

	Federal insured loans		State and private guaranteed loans	
	Number	Dollars	Number	Dollars
March:				
1972	42,793	39,775,782	15,799	14,577,197
1973	23,794	23,588,160	8,378	8,012,356
Loss	18,999	16,187,622	7,421	6,564,841
Percent	44	41	47	45
April:				
1972	36,532	33,655,580	9,799	9,590,466
1973	17,269	18,778,843	5,270	5,215,918
Loss	19,263	14,876,737	4,529	4,374,548
Percent	53	44	46	46
May:				
1972	48,771	44,328,177	17,902	19,305,855
1973	33,514	34,751,833	9,795	10,531,083
Loss	15,257	9,576,344	8,107	8,774,772
Percent	31	22	45	45
June:				
1972	61,809	61,373,171	57,400	68,370,677
1973	46,779	52,199,864	23,716	29,567,867
Loss	15,030	9,173,307	33,684	38,802,810
Percent	24	15	59	57
July:				
1971 [1]	63,383	71,893,591	89,159	102,200,512
1973	46,750	58,643,001	43,199	56,841,480
Loss	16,633	13,250,590	45,960	45,359,032
Percent	26	18	52	44
August:				
1971 [1]	99,257	112,512,348	126,969	143,277,904
1973	58,455	72,711,932	90,200	116,090,212
Loss	40,802	39,800,416	36,769	27,187,692
Percent	41	35	29	19
September:				
1971 [1]	100,348	109,303,975	83,488	89,966,168
1973	55,495	70,479,598	71,767	91,617,585
Net change	(44,853)	(38,824,377)	(11,721)	1,651,417
Percent	(45)	(36)	(14)	2
October:				
1971 [1]	56,931	60,801,464	38,751	41,765,920
1973	56,662	70,721,895	47,195	59,810,149
Net change	(269)	9,920,431	8,444	18,044,229
Percent	(.5)	16	22	43
November:				
1971 [1]	48,019	49,095,021	22,903	23,565,908
1973	58,234	72,225,612	30,826	38,416,050
Gain	10,215	23,130,591	7,923	14,850,142
Percent	21	47	35	63
December:				
1971 [1]	47,093	45,176,705	25,961	24,833,364
1973	34,051	39,829,392	23,404	28,135,003
Net change	(13,042)	(5,347,313)	(2,557)	(3,301,639)
Percent	(28)	(12)	(10)	(13)
January:				
1972 [1]	44,194	40,313,333	30,205	26,935,560
1974 [1]	42,517	48,919,472	27,485	30,493,910
Net change	(1,677)	8,606,139	(2,720)	3,558,350
Percent	(4)	21	(9)	13
March to June 1972 and July to December 1971 and January 1972	649,130	668,229,147	518,336	564,389,531
March to December 1973 and January 1974	473,520	562,849,602	381,235	474,731,613
Loss	175,610	105,379,545	137,101	89,657,918
Percent	27	16	26	16

PERCENT CHANGE COMBINED PROGRAMS

	Number	Dollars
March	(45)	(42)
April	(51)	(45)
May	(35)	(29)
June	(41)	(37)
July [1]	(41)	(34)
August [1]	(34)	(26)
September [1]	(31)	(19)
October [1]	9	27
November [1]	26	52
December [1]	(21)	(3)
January [1]	(6)	18
11 months [1]	(27)	(16)

[1] Fiscal Year 1972 used for comparison due to program interruption caused by adoption of interim regulations for 1972 Education Amendments.

[2] Preliminary.

HIGHLIGHTS ON THE GUARANTEED STUDENT LOAN PROGRAM—NEW LOAN VOLUME

Volume under the Education Amendments of 1972 for the 11 month period, March 1 to January 31, 1974 compared to the same period under preexisting law

[In percent]

Federal program		State and private programs		Combined programs	
Number	Dollar	Number	Dollar	Number	Dollar
−27	−16	−26	−16	−27	−16

Note.—These percents translate to a total decrease of 312,711 in numbers of loans.

Volume for the first 7 months of fiscal year 1974 compared to the same period of fiscal year 1972 is

Federal program		State and private programs		Combined programs	
Number	Dollar	Number	Dollar	Number	Dollar
−23	−11	−20	−7	−22	−9

Note.—These percents translate to a total decrease of 190,421 in numbers of loans.

Volume for the past 4 months (October to January 1974) of fiscal year 1974 compared to the same period of fiscal year 1972 is

Federal program		State and private programs		Combined programs	
Number	Dollar	Number	Dollar	Number	Dollar
−2	+19	+9	+34	+2	+24

Note.—These percents translate to a total increase of 6,317 in numbers of loans.

The picture for the past 4 months (October to January 1974) has been mixed

	Federal program		State and private programs		Combined programs	
	Number	Dollar	Number	Dollar	Number	Dollar
October	−1	+16	+22	+43	+9	+27
November	+21	+47	+35	+63	+26	+52
December	−28	−12	−10	+13	−21	−3
January	−4	+21	−9	+13	−6	+18

APPENDIX C

The following Issue Paper prepared by the National Council of Higher Education Loan Programs is submitted for the record at the request of the subcommittee.

GUARANTEED STUDENT LOAN PROGRAM—AN ISSUE PAPER, SEPTEMBER 1973

FOREWORD

The purpose of this issue paper is to provide a foundation for discussion concerning the purpose and the future of the Guaranteed Student Loan Program. Few can deny that the Education Amendments of 1972 have brought much confusion to the program, with the result that commercial lenders have reduced their dollar support of the program.

This paper has as a major purpose to ask questions of those people who establish national policy, legislatively and administratively. Those persons must first establish a firm foundation of policy and direction before the program administrators can begin to rebuild the program. At the present time, the program is being torn apart by those who differ among themselves as to the program's purpose and importance.

This paper has been written by persons who have as their major responsibility the administration of a guaranteed student loan program. Rather than only viewing this program as one of several to be administered, the authors live with the minute details of this program day in and day out. It is hoped that these credentials will lend some weight to the suggestions made, and lend some urgency to the questions asked.

This paper seeks not only to address the problem at hand, but attempts to also discuss some certain crises of the future. To the best of their ability, the authors recorded all potential options and solutions which came to their collective mind, with no attempt to obscure any alternative not popular with the authors.

These questions and suggestions, now, are laid before those who must decide the future of this program. And, it is with no small measure of hope that those who are used to legislating and regulating in arenas of "captive audiences" will remember the central lesson of the past year. That is, unless this program is kept simple, and unless it is reasonably attractive to the lending community, the most eloquent and precise legislative and regulatory efforts will not induce the lending community to make an adequate amount of dollars available to our nation's students.

CHAPTER I.—THE DILEMMA OF THE STATES: REINSURANCE OR FEDERAL INSURANCE?

I. A QUOTATION FROM THE STATUTE

"The purpose of this part is to enable the Commissioner (1) to encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eliigble institutions . . . , (2) to provide a Federal program of student loan insurance for students or lenders who do not have reasonable access to a State or private nonprofit program of student loan insurance . . ." [Higher Education Act of 1965 (as amended), Title IV, Part B, Section 421(a)]

II. THE ALTERNATIVE FORMS OF PROGRAM ADMINISTRATION AVAILABLE TO A STATE

A. Establish its own guarantee agency.

B. Contract with a private nonprofit agency to administer the state program.

C. Request the implementation of the Federally Insured Student Loan Program.

III. THE DIFFERING LEVELS OF FEDERAL INVESTMENT IN "FEDERAL" STATES VS. STATES WITH GUARANTEE AGENCIES

There are six distinct items in the Guaranteed Student Loan Program which require the investment of Federal funds. In four of these six items, a state would realize an advantage by choosing the implementation of the Federally Insured Loan Program over the other two non-Federal alternatives. For purposes of this paper, these items are labelled "Federal Investment Variables" (F.I.V.'s) and they are listed and compared in the table on the following page. Each of these variables must be examined in any contemplated attempt to bring greater or total equity in the treatment of all fifty states and the territories.

Refer to table on Federal Investment Variables on following page.

Federal investment variables (FIV's)	States with the federally insured loan program (percent)	States with guarantee agencies (percent)
Federal liability for defaulted principal amounts	100	[1] 80
Federal liability for defaulted accrued interest amounts	100	[2] None
Federal liability for collection costs and pursuit of defaulted claims	(3)	[3] None
Federal liability for other costs of program administration	(3)	[4] None
Federal liability for payment of interest benefits	(6)	(6)
Federal liability for payment of special allowance	(6)	(6)

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[1] Where a State has signed a reinsurance agreement, the Federal Government is liable for 80 percent of the principal amount which a guarantee agency pays to a lender on a defaulted claim. The state bears the remaining liability.

[2] The guarantee agency is responsible for 100 percent of the accrued interest due a lender under their contractual agreement, none of which is reinsured.

[3] Full cost.

[4] The guarantee agency is obligated to pursue the collection of all defaulted accounts and must forward 80 percent of all recoveries on reinsured accounts to the Federal Government. The guarantee agency bears the full costs of collection on these accounts, and often the collection costs exceed the 20 percent interest which the agency has in the accounts.

[5] The administrative costs referred to include the processing of applications and default claims, the servicing of schools and lenders, and the attendant administrative details. (It is recognized that the Federal Government bears some administrative expenses for certain nationwide responsibilities such as the payment of interest benefits.) Currently, student borrowers are charged an "insurance fee" by both the federally insured loan program and many of the guarantee agencies. The guarantee agencies are permitted to use these fees to defray a portion of any of the States' liabilities associated with the first four investment variables listed above. However, these fees do not adequately cover the costs, in either the federal program or the State programs. The inequities arise because of the fact that the states which have guarantee agencies must bear all expenses in excess of the insurance fees while the federal government bears all excess expenses on behalf of the balance of the states.

[6] Although Federal liability for student interest benefits and special allowance currently are in the same in both Federal and non-Federal States, they still remain, together or individually, variables which can statutorily be made unequal as a means of encouraging or further discouraging State investment in the program.

IV. AN HISTORICAL PERSPECTIVE

In the beginning days of the program, all states had some type of student loan program which basically took one of three forms:

A. The state operated its own guarantee agency; or,

B. The state contracted with United Student Aid Funds, Inc. to administer the state program; or,

C. The Office of Education authorized United Student Aid Funds, Inc. to administer programs in the remainder of the states (thirteen) using those states' allotment of the appropriated Federal seed money as a reserve fund.

In those early days, many states in each of the above three categories had reserve funds comprised wholly of their Federal seed money allotment. At such time as these reserve funds became fully encumbered by student loan volume, the states were faced with the choice of appropriating state dollars to continue the program on its then current basis, or to choose an alternative which required no state investment, the implementation of the Federally Insured Loan Program. Since the inception of the program, over one-half of the states have chosen the latter alternative.

V. THE PRESENT SITUATION

With a few exceptions, the 24 states who continue to invest state dollars in the guaranteed student loan program are those states whose commitment to guaranteed loans predates the 1965 Federal legislation. However, the continuing easy availability of the [illegible] more attractive Federal program constantly threatens the continued existence of these established state programs. Many program administrators undergo very penetrating questioning by state officials and legislators each year or biennium as they seek additional administrative funds, greater reserve fund capacity, or any type of amendment to state legislation. Many budget officials in these states right now are considering the potential abolition of the state guarantee agencies as an easy and painless means to realize a substantial savings to the state if the Federal government will offer a similar program and assume all costs. This knowledge often leads state program administrators to be ultra-conservative in their statement of staffing and monetary requirements (often to the detriment of the program's administrative quality) as they seek the continued renewal of their state's fiscal support.

VI. A CONFLICT IN LEGISLATIVE PURPOSE AND ADMINISTRATIVE INTENT

In 1965, the Congress appropriated Federal seed money to fulfill one of the stated purposes of the Act which was to encourage the establishment of adequate non-Federal loan insurance programs. In 1968, the Congress amended the statute to provide a substitute for the seed money which would attempt to carry out the same purpose. This substitute was named "reinsurance" and provided a means to substitute Federal credit for Federal dollars. Speaking for the Administration in 1968 before the House Special Subcommittee on Education concerning the purpose of reinsurance, [then] Associate Commissioner for Higher Education Peter Muirhead indicated that ". . . in the long run what we would like to see in place here would be 50 State-operated programs making these loans available . . ." and that ". . . our objective, our clear-cut objective in the guarantee loan program, is to look toward a state operating in these programs, endorsing what this committee has endorsed many times: the whole concept of creative Federalism. We should do all that we can to carry out that concept and to have the States support it."

If, indeed, it today remains the contention of the Congress and the Administration that the purpose of reinsurance continues to be to provide an incentive for states and private organizations to establish adequate loan insurance programs, then the credibility of this stated purpose must be examined in light of the alternatives to reinsurance, which is a program of Federal insurance at no cost. Standing alone, reinsurance could begin to fulfill its stated purpose. However, when viewed in light of the alternative of the no-cost Federal program available to every state, it can at most be claimed that reinsurance permits the survival of the more determined state programs, but by no stretch of the imagination can it be argued that it fulfills its purpose of encouraging the establishment of any new non-Federal programs.

VII. THE CENTRAL ISSUE TO BE RESOLVED

How is the incompatibility of the stated purpose of reinsurance and the continued existence of the alternative no-cost Federal program to be resolved? There appear to be two alternatives:

A. Strike that portion of the statute which indicates that one of the purposes of the act is to encourage the establishment of adequate non-Federal loan insurance programs. Insert in its place more appropriate wording which would indicate that a purpose of the act was to permit the establishment of loan insurance programs by willing states or private, non-profit agencies.

B. Amend legislation to bring greater equity of Federal investment in all states. This exercise would require an answer as to whether:

1. Too little is being offered to the states having guarantee agencies; or,
2. Too much is being offered to the "Federal" states.

VIII. THE OPTIONS FOR LONG-RANGE PROGRAM ADMINISTRATION

The statute may be amended in an attempt to stabilize or alter the distribution of Federal and non-Federal states by establishing total, greater, or lesser equity in any, or all, of the Federal Investment Variables. One of the following goals must be first established:

A. Institute a nationwide program of Federal insurance, and eliminate further state participation and investment.

B. Seek full participation by all 50 states, and allow the Federal program to expire on a timely basis.

C. Maintain a mixture of Federal and non-Federal states, but:

1. Seek to acquire more Federal states.
2. Seek to acquire more guarantee agencies.
3. Attempt to stabilize the current distribution of Federal and non-Federal states.

IX. METHODS FOR ACHIEVING EACH OPTION

A. Nationwide Federal Program.

This would require the discouragement of the continued operation of the remaining guarantee agencies. This would be accomplished by any widening of the disparities in any of the current Federal Investment Variables. Removing interest benefits or special allowance eligibility for only the guarantee agencies' student loans would accomplish this goal fairly fast. So would the removal or reduction of the 80% reinsurance. And, as long as the alternative Federal program remains an option, so would any revival of the year-old discussions about requiring all guarantee agency states to charge their applicants an "insurance fee" (not all states currently do so) with the additional requirement that these states remit a portion of such fee to the Federal government for the privilege of reinsurance. (It now seems incredible that the Administration once considered charging states who are investing their own funds in the program [if insurance fees are collected, they never fully cover all administrative expenses and default liabilities], but never actively discussed the possibility of charging non-investing state governments a "fee" to cover any portion of administrative costs and default liabilities in the Federally Insured Loan Program.)

B. Full State Participation.

This goal could be accomplished by nothing less than eventual elimination of the alternative Federal program (or by making the Federal program more costly to a state than the establishment of their own program). While the Federal program originally was implemented in the states on a "temporary" basis, these states continually have gambled on successive extensions of the life of the Federally Insured Loan Program—and they have won their bets. What state governor would seriously ask his legislature to appropriate funds to pay for a program they are now getting for free and when they see no prospect of it expiring? Constituent demand for this program is now much stronger in the mid-1970's than it was back in the mid-1960's when many of the 50 states had never truly experienced the benefits of a statewide program (or had had only a short-term, inconclusive experience with one), and their citizens had not become accustomed to the availability of this form of assistance. Recent experience with the vast public reaction to the new legislative amendments should indicate to some degree the pressure an aroused citizenry would place on a state if the "temporary" Federal program was to be given a definite expiration date, and it was seen that the state was not taking steps to assure the continuation of similar benefits to its citizens by establishing a state program. If this alternative is given serious consideration, there would be some merit to avoiding a single, nationwide expiration date of the Federally Insured Loan Program. Rather, it might be more appropriate to lapse the Federal program within individual states a specified period of time (6 months?) after the final day of each state's next regularly scheduled session of their legislature.

This alternative also would require the Congress to re-examine the current parameters within which individual state agencies have been allowed to tailor their loan programs to complement other existing state student assistance programs and state higher education funding goals. (For example, state agencies currently are permitted to make choices of borrowing maximums for individual academic years which range from $1,000 to $2,500.) Many of these state options are not undesirable. However, it would be most unreasonable for the Congress to allow 50 state agencies a range of choices, and then expect 50 identical responses. The present variations among state guarantee agencies bears testimony to this. (It should be stated, however, that any substantial "tightening" of these parameters, without first removing the alternative of simply implementing the Federal program, definitely could result in the sudden acquisition of several more "Federal" states.)

C. Maintain a Mixture of Both Federal and non-Federal Programs.

1. Seek to acquire more Federal states.

A continuation of the current disparity in the Federal Investment Variables should accomplish this goal without the need for further program modification.

2. Seek to acquire more guarantee agencies.

To realize this goal, all the Federal Investment Variables would have to be equalized for all 50 states, and, ideally, at least one of the variables should be funded in all states at less than 100%. The key ingredient in this alternative is to establish a foundation on which a state may choose to build. The combinations of Federal Investment Variables are endless. For instance, rather than insuring 100% of the defaulted principal liability in half the states and reinsuring 80% in the other half, the government could consider insuring or reinsuring 80% or 90% of the defaulted principal liability in all states. (Four states currently are functioning with an 80% or a 90% guarantee.) A state could choose to guarantee the remaining 10% or 20%, or it may choose not to do so. The principal ingredient in successfully realizing this alternative is to be certain that a state will not realize any financial gain by implementing or retaining the Federally Insured Loan Program.

3. Attempt to stabilize the current distribution of Federal and non-Federal programs.

Complete stability is nearly impossible. The program structure which would come the closest to this goal would be to equalize all Federal Investment Variables in all 50 states at 100% Federal funding. In this environment, the Federal states would continue to have little incentive to establish agencies (except maybe for the advantages of local administration, an incentive which might be easily offset by simple inertia or a disinclination to get involved in administrative "red tape" when it is not required). The non-Federal states would realize no gain by "going Federal." However, this is an expensive alternative, and it has only the other single advantage of providing and retaining local servicing staff and the other benefits of local administration when the state in question has an established agency.

The trend toward "going Federal" can be partially stabilized (or at least retarded) by bringing equity to some, if not all, of the Federal Investment Variables. There are currently two Federal Investment Variables which are particularly troublesome to state agencies:

a. Federal liability for defaulted accrued interest amounts.

Until 1972, the Federally Insured Loan Program and some of the state guarantee agencies did not insure accrued interest. In 1972, the Federal statute was changed to insure interest in the Federal program, but a similar amendment to reinsure interest in the non-Federal states was not included. The establishment of SALLIE MAE has made the insurance of interest practically mandatory, if the loan paper is to be readily marketable. However, the states who do not insure interest are faced with the potential threat that asking their legislators to assume more default liability at this time could be the "straw that broke the camel's back," resulting in the implementation of the Federal program in that state.

All states who currently are insuring interest will face a crisis if the Congress should adopt any future legislative provision which might require the deferral of accruing interest on non-subsidized loans during the period of time the borrower is in school. Such a provision will add substantially to the dollar amount of each defaulted claim. Unless such additional amounts were reinsured, many state fiscal officers could mandate the abandonment of the state program and the implementation of the Federal program. The ideal environment which would afford the state agencies the greatest amount of protection would be the total equalization of this Federal Investment Variable at 100% for all 50 states. However, even an 80% reinsurance of this amount would be helpful.

b. Federal liability for collection costs and the pursuit of defaulted claims.

Many state agency administrators are frequently questioned by dollar conscious state officials and legislators as to why the agency must spend amounts of money on the collection of defaulted accounts when these collection costs often exceed the 20% of the collected payments which the agency may retain on reinsured accounts. Program administrators are occasionally advised to accept the 20% loss and eliminate the expensive collection functions. It is difficult for a program administrator to explain that the adoption of such an attitude would result in the cancellation of the state's 80% reinsurance privileges, which would require the state to accept the 100% insurance alternative in its place. In spite of the fact that legislative passages to the contrary can be cited by state program administrators, their informed state officials and legislators, after considering the availability of the alternative federal program, form the opinion that the Federal government is not assuming 80% of a state's liability, but, rather, that the state is assuming 20% of the Federal government's liability, and paying a heavy administrative price to do so.

To bring total equity to this Federal Investment Variable for all states, the Federal government should assume 100% of all collection costs for all 50 states. (If total equity is not desired, the current 80%–20% reinsurance "split" seems a reasonable request on the part of the state agencies.) For administrative ease, and to eliminate potential future disagreements concerning the legitimacy of specific collection costs, the Congress should legislate a flate percentage for collection costs which could be deducted from reinsured recoveries. For instance, the Federal government would pay the state 80% on a reinsured claim, and the state would return a flat 50% of all recoveries, until such time as the government has been reimbursed for 50% of the claim plus interest. (An equitable percentage figure can be established by a survey of the average collection costs on delinquent loan portfolios. Due consideration must be given to the fact that guarantee agencies have collection costs on accounts that they are not successful in recovering which often exceed the costs of collections on accounts which are ulltimately fully recovered.)

X. RELATED POLICY QUESTIONS WHICH MUST BE ANSWERED

A. Whose responsibility is it to bear the cost of this program?

1. The states?
2. The Federal government?
3. Is it to be shared by the states and the Federal government?
4. Are the full costs to be passed directly on to the borrower by a system of application and processing fees?

B. What value is to be placed on local program administration? In dealing with lenders? Schools? Students? The general public?

C. What discretion should individual guarantors have in establishing student eligibility criteria? Should the Congress establish parameters within which the guarantors may design a program? Should the Congress establish absolute eligibility ertteria, and, in light of the easily available Federal program alternative, what incentives could be given a state for the adoption of same?

D. Should a universal application form be mandated, or would a substantially common school certification section suffice? (The schools are practically the only party to the application who deal consistently with several different guarantors.)

E. Should the state agencies be offered access to the national student master computer file to check for activities with other guarantors and establish the student's remaining dollar entitlement under the statute? (All of the large agencies already are computerized and could use telephone line hookups directly into the Federal system. Or, computer tapes or cards could be exchanged.)

F. Today at least twenty-nine states serving 80% of the nation's population are processing student applications for financial assistance. Presently there is virtually no coordination between state and Federal agencies. Students seeking aid simultaneously from different programs are faced with multiple eligibility criteria, multiple application forms, and multiple deadlines. The delivery vehicles for all forms of student financial aid must be reassessed, and one of the following goals chosen:

1. Administration of all Federal aid programs handled solely by the Office of Education on a centralized ro regionalized basis.

a. Student applications to be processed by, and individual student eligibility determined by, the Office of Education.

b. Would require rather specific and precise student eligibility criteria to be employed.

c. Separate application process required to establish eligibility for state assistance.

d. Would require vehicle for the coordination of aid "packaging" to be established between the administering agencies.

e. Tend to promote a "student consumer" concept in which a student may first establish his eligibility for assistance and then identify the school which will best serve his educational needs.

2. Administration of all Federal aid programs delegated to the colleges and vocational schools having program eligibility.

a. Student applications to be processed by, and individual student eligibility determined by, the school aid counselor.

b. Student eligibility may be rather specific and precise, or flexible and subject to interpretation by the school counselor, as is currently the case.

c. Separate application process required to establish eligibility for state assistance.

d. Packaging of state and Federal aid performed by the school aid counselor.

e. Tends to weaken a "student consumer" concept since student must seek a school on the basis of financial considerations in addition to the academic considerations. Financial assistance can vary in amounts for individual students, even among schools of similar costs.

3. Administration of all Federal aid programs contracted to the state agencies responsible for administering state student aid programs.

a. Student applications to be processed by, and individual student eligibility determined by, the state contractor.

b. One application would suffice for all state and Federal aid.

c. Would require rather specific and precise student eligibility criteria to be employed in the Federal aid programs.

d. The central packaging concept could save both state and Federal dollars which are lost each year through "over awarding" due to poor coordination between programs.

e. Strongly promotes the "student consumer" concept.

f. Could include an optional feature permitting the school counselor to "override" the computed eligibility for Federal dollars.

CHAPTER II.—TARGET POPULATION OBJECTIVES: WHO SHOULD THE PROGRAM SERVE?

I. THE ORIGINAL PURPOSES AND EFFECTS OF THE GUARANTEED LOAN LEGISLATION

A. A Guaranteed loan concept, using private capital along with the investment of individual states, was less expensive to the federal government than a loan program fully funded and administered by the federal government.

B. A Guaranteed loan concept already was operative in several states, and the concept had proven workable. Also, the existing programs offered an attractive base on which to build.

C. A Guaranteed loan was the only means by which the private lending community would offeffr otherwise unsecured, low interest loans to students.

D. A Guaranteed loan concept, working through commercial lending institution was eminently suited to serve the (then) middle income target population because this income group was most likely to have, or be a prime candidate for, other banking relationships, a fact which would make such a program more attractive to commercial lending institutions.

E. A Guaranteed loan provided the middle income family a loan of accommodation which they were permitted to use to replace any or all of the "expected family contribution" as computed by the traditional needs tests.

F. A Subsidized loan was a less expensive alternative to offer the middle income population than the tax credit for educational expenses proposals which were being offered at the same time.

G. A Subsidized loan eliminated the need to choose between two unsatisfactory alternatives, either of which would increase the "risk factor" of the loan if the consumer would have been required to pay his own interest: They are:

1. Require the student to periodically pay his interest while he is a student, even though his income is minimal; or,

2. Require the lender to defer the accruing interest collection until the student leaves school (adding the deferred interest to the principal amount of the student's Payout Note), thus obligating the student to attempt to manage a greater monthly payment when he leaves school.

II. THE CENTRAL ISSUE: IS HIGHER EDUCATION A RIGHT OR A PRIVILEGE?

A. The low income student:

1. Cannot pay educational costs out of current income

2. Requires financial aid in order to attend school

3. Financial needs analysis contribution curves require little, if any, contribution from the applicant's family towards his educational costs

4. Student often receives a financial aid package approximating his total cost of education

5. Personal sacrifice of exisitng family standard of living not expected in the evaluation of need for assistance.

B. The high-income student

1. Can pay educational costs out of current income

2. Does not require financial aid in order to attend school

3. Personal sacrifice of existing family standard of living is not an issue because of the high income levels which easily accommodate the educational costs.

C. The middle-income student

1. Often cannot pay all educational costs out of current income

2. Often requires financial aid in order to attend school

3. Financial needs analysis contribution curves require fairly substantial contributions from the applicant's family towards his educational costs

4. Personal sacrifice of the family's achieved standard of living is definitely expected in any evaluation of need for assistance.

Loan program administrators sense that there are those in the Congress and the Administration who seek a change in the perceived original purpose of a program of subsidized, guaranteed loans for middle income families. The 1965 legislation appeared to give recognition to the fact that middle income families were having great difficulty meeting the mosts of a opst-secondary education (especially at private schools) without a great amount of financial sacrifice. These families were usually not eligible for any other sources of student assistance because the traditional formulas for distributing available financial aid dollars required family contributions representing financial sacrifice in the case of middle income families. Before the implementation of the Education Amendments of 1972, these families were given the alternative of a subsidized loan to replace part or all of any computed "expected family contribution."

However, in evaluating the effects of the Education Amendments of 1972, there are those who merely seek to determine whether any middle income students are being deprived of a post-secondary education without any concern as to what the cost might have been to his family. Such questions presuppose that it is the purpose of this program to assist only those students who would have no access to a post-secondary eduaction if the loan funds were not available. If such is the case, then it must be made clear to the public that the target population this program is to serve has been changed over the last eight years.

III. THE TARGET POPULATION OPTIONS

In order to establish a strong, well functioning Guaranteed Student Loan Program, one of the five target population options following must be chosen as a definite goal of the program.

A. Low Income Students *exclusively*, offering no source of student assistance to a student from a middle income family.

B. Low Income Students *primarily*, but without excluding those middle income students who have sufficient influence with lenders to secure funds. (The effective target population at present.)

C. Middle Income Students *exclusively*, directing the low income family to other financial aid programs for assistance.

D. Middle Income Students *primarily*, but without exluding those low income income students who have sufficient influence with lenders to secure funds. (The perceived original 1965 legislative intent.)

E. Both Low Income and Middle Income Students *equally*.

IV. DESIGN ELEMENTS FOR SUCCESSFUL POPULATION "TARGETING"

Once a definite target population option from above is selected, the three design elements required to accomplish the targeting must be totally consistent among themselves and with the objective. The current state of the program is the result of design elements which are inconsistent with the stated objective. The three design elements are:

A. Student eligibility criteria

This design element can be interpreted broadly enough to include many characteristics such as number of credit hours being taken, type of institution attended, etc. However, for purposes of this paper, all discussion will be limited to eligibility criteria as it pertains to a student's financial status and his ability to contribute towards his educational costs.

Student eligibility criteria as discussed in this context may be applied interchangeably to eliigbility for a loan guarantee or eligibility for a program benefit of such significance that it would realistically, but not technically, determine the student's access to a loan. Federal interest benefits currently serve as an example of the latter. (NOTE: There follows later in this chapter a discussion of possible alternative methods of improving, if not equalizing, the attractiveness of non-subsidized loans as they compare to subsidized loans.)

B. Interpretive flexibility

This design element deals with the flexibility which any party to the application (schools, lenders, and guarantors) might have in modifying or "overriding" a specific or implied eligibility criteria. It speaks to the question of when, and how frequently, exceptions may be made in the administration of the program. In the current application process, it deals with the limitations on the flexibility a school or lender has in overriding the computational results of the financial needs analysis system.

C. Administrative simplicity

The experience of the past year has taught program administrators that eligibility criteria and interpretive flexibility alone is not sufficient to assure that the intended loan recipients wll be properly served. Unless the administrative requirements attending the other two elements are simple enough to maintain an adequate level of school and lender cooperation and participation, the objectives of the other two design elements will not be realized. Much of the lenders' current reluctance to make non-subsidized loans is the function of a deficiency in this one design element.

V. ALTERNATIVE DESIGN ELEMENT STRUCTURES

A. Student eligibility criteria (analysis of family financial resources)

1. Do not change the current method of analyzing family financial resources. This alternative will result in a continued targeting of guaranteed loans to the low income student.

2. Liberalize the current method of analyzing family financial resources to extend eligibility to more middle income students. There exist several methods available to accomplish this:

a. Retain the "needs test" concept, but employ a formula which results in a smaller "expected family contribution." This alternative is not without its liabilities, a few of which follow:

(1) There will be inertial resistance from many schools who have employed the ACT and CSS systems for many years and have some deep-rooted loyalties.

(2) Unless ACT, CSS or another contractor undertakes to offer computation services, the new needs test would place all analysis in a "hand computation" environment and nearly grind processing to a halt at the busiest times of the year.

(3) Whether the results of the needs test are hand computed or computer produced, a continuation of any form of needs test will perpetuate the complicated July-August-September "log jam" of applications awaiting computation results. Many August and September applicants will not receive loan funds in time to pay tuition when due.

(4) The current existence of three major national needs analysis systems (ACT, BEOG, and CSS), plus individual needs anaysis systems for the awarding of state financial aid benefits, already is very confusing to many people. Adding another major system is bound to create more confusion, and potentially result in the wrong system occasionally being used to determine eligibility for a specific program.

(5) Working with two (or three) different needs analysis systems will greatly complicate the school counselor's responsibility for constructing an aid package which does not exceed a student's "need."

(6) The school counselors would face formidable tasks in explaining to a student and his family that their "expected family contribution" for a

National Direct Loan is $2,000, but the contribution for a Guaranteed Student Loan is only $700. This will inevitably invite the question from the public as to which is the more accurate or "reasonable" to expect from the family in light of the true family circumstances. Such a disparity could evoke public suspicion as to whether the historical measuring devices are truly "reasonable," or whether they merely represent arbitrary devices for allocating limited funds to families who are comparatively "most needy" while trying to give the illusion of meeting the families' actual need, but without doing so. Arrousing public suspicion regarding the validity of the historic means of distributing financial aid could result in a crisis in all financial aid programs.

b. Instead of a "needs test" concept, employ an "entitlement" concept. There are two types of entitlement concepts:

(1) The absolute (or "yes/no") entitlement concept.

An absolute entitlement concept deals with determining a student's eligibility for the benefits he seeks, as opposed to determining the amount for which he might be eligible. (The original $15,000 adjusted family income ceiling for interest benefits represented a very simple form of determining absolute entitlement for benefits.)

a. For those who favor the retention of the adjusted family income concept of determining entitlement, but who simultaneously are concerned that the current formula to determine the adjusted family income is not sensitive enough to certain family circumstances, the adjusted family income formula can be adjusted. Subtractions could be made for all the off-sets against income allowed in computing a family's discretionary income in the BEOG needs analysis. In the most literal sense, the discretionary income amount is an "adjusted" family income. Of course, many variations on this theme are possible.

(b) If relative simplicity of formula was retained, the student and his family could compute eligibility as they did with past adjusted family income computations. This would eliminate the computational delays currently being experienced with the needs test and help relieve the July-August-September "log jam."

(c) The "15/15 proposal" is a variation of an absolute entitlement concept.

(2) The amount entitlement concept.

The amount entitlement concept deals with the determination of a dollar amount of benefits that a student is entitled to receive.

(a) Following is a simple example of one additional formula which is given solely for illustrative purposes and without defense of any of its components:

$$\$2500+\$750x+\$1500y-.25z$$

x=number of dependents
y=number of family members in post-secondary education
z=adjusted gross income from income tax form

(b) simple amount entitlement formulas could be computed by the applicant and his parent.

(c) The amount entitlement concept differs from the "liberalized" needs concept in that references to, and computations of, expected family contributions are avoided, thus eliminating the necessity of explaining the differing contributions to families to take exception. A second difference is that the amount entitlement is based solely on family financial data and usually does not involve a comparison of educational costs. (An amount representing educational costs could be inserted but not without some difficulty and further complexity.)

(d) An amount entitlement concept, if used to determine eligibility for federal interest benefits, would have the same negative feature as the current needs test concept does now. It often will result in a student's loan request being partially eligible for subsidy. Given lenders' current attitude toward non-subsidized loans, and given further lenders' almost total boycott of partially subsidized loans, an amount entitlement used for determining eligibility for interest benefits could potentially deny many students their rightful maximum loan amount.

3. Instead of any determination of financial need or entitlement, completely eliminate all financial eligibility criteria.

The question must be answered as to whether the collection and consideration of parental financial data is relevant to the guaranteed student loan program. The following comparison of the accepted presumptions in the awarding of gift aid and loan aid bring the question into focus:

Gift Assistance
- Educational costs are permanently relieved.
- Educational costs are presumed to be the responsibility of the parents of dependent students.
- Educational costs are immediately paid by the gift assistance at a time when parental financial information could be relevant to the transaction.

Loan Assistance
- Educational costs are merely deferred, not relieved.
- Educational costs are legally the responsibility of the student, not his parents, the minute a guaranteed loan promissory note is signed.
- Educational costs are paid (as opposed to deferred) by the student after he leaves school at a time when dated parental financial data is no longer, if ever, relevant.

As financial eligibility criteria relates to the eligibility for federal interest benefits, there are two conditions under which such financial eligibility criteria can be eliminated. They are:

a. Retain federal interest benefits as a feature of the program.

This is a costly alternative which would make virtually everyone eligible for federal interest benefits. (The criteria could be removed for some students as in the "15/15 proposal," but this is truly an entitlement concept variation.)

b. Eliminate the federal interest benefits.

This would result in a fantastic savings to the federal government. However, care must be exercised that much of that savings is not also the result of a decline in default payments and administrative costs brought about by the total collapse of program application volume.

Alternative means of collecting accrued interest from the borrower are listed and discussed in the Appendix at the end of this chapter. It is difficult to envision any of the alternatives as being equally attractive to lenders as the current program of interest subsidy, and limited surveys of lenders have confirmed this. Adoption of any one of the alternatives as a vehicle for eliminating all fedeal interest benefits could result in reduction of application volumes which could range from moderate to severe.

However, some of the alternatives listed definitely represent viable means of increasing the numbers of non-subsidized loans currently being made by lenders, and could provide an excellent complement to a program of restricted interest subsidy eligibility.

B. Interpretive Flexibility (Alternative Design Element Structures for)

The degree of interpretive flexibility allowed a school and lender under the current program has been a source of dissatisfaction to many people. There is a great variance in the interpretations of schools and lenders regarding their perception of just how much flexibility they truly have in modifying the results of needs analysis computations. If greater flexibility is desired, there are potentially two alternatives to investigate:

1. Legislative remedy. The alternative of legislative amendment offers virtually limitless options. The Congress could choose to make the results of the needs analysis virtually binding in all cases. It could choose to make it totally non-binding on either the school's recommendation or the lender's deliberations, or it could choose any shade of flexibility between the two extremes. However, care must be taken that any degree of interpretive flexibility be consistent with the target population goals and the other target population design elements.

2. Administrative remedy. The limits imposed by the wording of the current statute would permit few, if any, interpretations which might increase a school's or a lender's interpretive flexibility. The status fairly specifically defines the limits of a school's flexibility. Perhaps more flexibility could be given a lender in his interpretation of the school's recommendation if the following presumptions could be supported by counsel:

a. The status requires the school to determine a student's amount of need" in both the under $15,000 and $15,000 or greater adjusted family income categories.

b. The statute required, again in both categories, that in order for the student to be eligible for federal interest benefits the school must forward to the lender a statement recommending a loan in the amount of the student's need.

c. In the under $15,000 category, the school's recommendation in the amount of the student's need may be zero without totally precluding the student's eligibility for federal interest benefits. (This is currently the case.)

d. In the $15,000 or greater adjusted family income category, before a school may submit to a lender a statement recommending a loan in the amount of a student's need, he must first determine that the student is "in need for a [any] loan." This determination presumably is made by employing essentially the same process used to determine a student's "amount of need." If such determination shows the applicant to be "in need" of any loan (of one cent or more), then, and only then, is he authorized to make a recommendation to a lender in the amount of such need.

e. There is a definite, intended distinction between the terms "amount of need" and "need" (as the latter is employed in the phrase ". . . to be in nedd of a loan . . ."). The terms and meanings are not interchangeable in the statute. Where the term "amount of need" is employed, a student's amount of need could be zero without precluding his eligibility for interest benefits. The term "amount of need" does not imply the required presence of "need," the latter implying that some disparity exist between a student's educational costs and his resources to meet those costs.

f. That the statutory language places as the student's primary eligibility requirement for interest benefits that his school has forwarded to the lender a recommendation in accordance with the statute which can only be done by the school if: (1) his adjusted family income is under $15,000, or (2) his adjusted family income is $15,000 or more and the school has found him to be "in need."

g. That once the student's eligibility for interest benefits is so determined, because neither the text of the legislation nor the conference report indicate that the lender is to regard the school's statement as a decree rather than a recommendation (generally defined as advice or counsel), the lender should not be bound by the recommendation nor should he be required to give any form of explanation for any deviation from the recommendation after giving it his consideration.

The above alternative interpretation represents an absolute rather than an amount entitlement concept (discussed earlier in this chapter). Even if this interpretation should eventually be adopted, however, many lenders (probably most lenders) still would not exceed the school recommendation in most cases, especially where a student is certified to have an amount of need which is zero. However, it would yield more middle income than are now being made. Perhaps it represents an interim step to corrective legislation, but it would not solve the actual problem.

C. Administrative simplicity

It would take legislation to bring true administrative simplicity. In seeking this simplicity, one unavoidable dilemma must be faced and recognized. In the science of evaluating family financial strength, the element of simplicity is not compatible with the desired element of precision. A simple eligibility formula (like the earlier $15,000 adjusted family income ceiling) must be less precise than other formulas because limited data is collected and the computations are not complex. A simple eligibility formula exposes the program to some probability that certain unintended persons will benefit from the formula.

On the other hand, a more complex formula which demands a considerable amount of data to be subjected to very complex computations, will serve the function of eliminating more of the unintended persons who might otherwise receive benefits. However, this same formula will also frighten, frustrate, and discourage those very persons for whom the program *was* intended (not to mention the loss of support from administering schools and lenders).

The choice to be made is not easy. Does one choose simplicity, which may result in some persons getting benefits who should not? Or, does one choose precision, which may result in some persons not getting benefits who should (as is very definitely the current case).

APPENDIX

ALTERNATIVE METHODS OF COLLECTING INTEREST DUE FROM BORROWERS

1. Require the student to pay accruing interest periodically while in school. (Currently the most common manner of collecting interest on non-subsidized loans.)

a. Greatly increases bookkeeping and collection costs for lenders.

b. Works a hardship on students who have little or no income while in school. (Students who borrow the maximum their first three years of school will be required to meet a payment of over $130.00 *every three months* during both their junior and senior years.

c. Will cause a rise in the default percentage proportionate to any rise in the number of non-subsidized loans because many students will not be able to afford these interest payments.

d. Will cause an administrative problem for the guarantor as to whether or not to loan more funds to such defaulted students or simply "cut them off" while in school.

e. If the number of non-subsidized loans is increased substantially, the attendant increase in the default liabilities may cause some states to consider the abandonment of their state program in favor of the no-cost federal alternative.

2. Defer the collection of interest until the repayment period, and add the accrued interest amount to the principal amount of the Payout Note. (Alternative currently available to lenders.)

a. Many lenders resist the deferral of this income because thew receive no interest on these additional "loans" of the interest money.

b. The studenty monthly payments are greater, causing some hardship to many borrowers. Students borrowing the maximum $10,000 would find their payments increased from $116 to $143 monthly on a 10 year repayment basis. (Since lenders already are disenchanted with the length of the maximum repayment period, it appears unwise to consider increasing it.)

c. The increased monthly peyments and attendant borrower hardships expose the quarantor to greater default risk. (See 1-e above.)

d. The average default claim could be increased 15% to 30% in un-reinsured interest charges. Some states do not guarantee interest, and many who do would not feel free to permit the deferral of such interest unless it would be reinsured. The imposition of any such a deferral requirement, without reinsurance of interest, would cause more state administrations to consider the abandonment of their guarantee agency in favor of the no-cost federal program.

3. Same as #2, but compounding the interest quarterly to give a lender some income on the deferred interest.

a. Solves problem 2-a.

b. Aggravates problems 2-b, 2-c, and 2-d.

c. Many lenders prefer the interest income to be collected quarterly to invest in ventures with a greater percentage yield than that offered on a student loan.

d. The word "compound" appears to carry with it some emotional negativism. The consumer views his interest charges as increasing at an almost exponential rates. The less sophisticated lenders tend to equate the word "compound" with "complex."

e. May complicate the "Truth in Lending" interest note disclosure requirements where an annual percentage rate based on *simple* interest must be disclosed.

4. Require the student to pay accruing interest periodically while in school, but further charge the student a service fee to defray the lender's additional costs in making non-subsidized loans.

a. Attempts to solve only the one problem indicated in 1-a. Does not give any relief to the rest of the problems listed in alternative #1.

b. Complicates the Interim Note's "Truth in Lending" requirement because the service fee would have to be disclosed as a part of the annual percentage rate.

5. Discount the interest on the student's note. (Discounting is the practice of subtracting future interest due from the proceeds of the loan before disbursement.)

a. In order to discount a note, the exact amount of time the loan will be computed. Projected maturities are inaccurate in more than 50% of the loans in the guaranteed loan program.

b. The administrative costs attendant to the interest adjustments caused by inaccurate projections of maturity dates would cause hardships for lenders. Students who drop out of school in a short period of time would be due refunds. Students who remain in school beyond the projected maturity date would owe more interest. Such additional interest would have to be collected by one of the other means described in this Appendix.

6. Require the government to pay the interest periodically on all accounts while the borrower is in school, with the amount of interest paid on non-subsidized loans to be returned (with or without interest) to the government after the student leaves school.

a. Would have the advantage of treating all accounts identically while the borrowers are in school, thus eliminating the costly dual systems for the lenders. (For a little additional cost to the government, the status could be written making such a feature retroactive at the option of the borrower and lender for the relatively small percentage of non-subsidized accounts currently outstanding.)

b. Would give the lender current income for reinvestment in more profitable ventures or more student loans.

c. Would have all the problems enumerated in 2–b, 2–c, and 2–d.

d. The administrative means by which the money is returned to the government is of paramount importance:

(1) Amount of subsidy added to the amount of the Payout Note and subtracted from the next quarterly interest billing form—Not terribly difficult administratively, but some lenders might object to what amounts to another sizeable "loan" when the student enters repayment.

(2) Amount of subsidy added to the amount of the Payout Note and subtracted from the lender's quarterly interest billing form which immediately *follows* the student's *final payment* on the account—

(a) solves the lenders' potential objection to the above alternative,

(b) is more attractive to lender because of longer use of the money,

(c) ties up government funds for a longer period of time.

(3) Amount of subsidy added to the amount of the Payout Note and gradually repaid by subtracting equal portion from quarterly interest billing forms during the entire repayment period—Probably administratively too time-consuming for most lenders to accept.

CHAPTER III.—DEFAULTS: THEIR PREVENTION AND CURE

I. STUDENT MOBILITY: HOW CAN WE LOCATE OUR MISSING BORROWERS?

Locating missing borrowers is virtually one of the most expensive collections function any guarantor must bear. Most experienced collectors will indicate that they usually can collect from most borrowers sooner or later once they are located, but the critical, and time-consuming problem, is to find them. The federal government possesses at least two excellent resources to locate the borrowers which owe them money on insured or reinsured student loans. The authors of this paper are not insensitive to the issues of individual privacy and confidentiality of data. However, it must be stated that the government agencies responsible for collecting student loans now are forced to pursue "missing" student borrowers in a manner which might be labelled by some persons as a far greater violation of the borrower's right to privacy than the mere revelation of a current address would entail. Although practiced with as much professionalism and delicacy as possible, the fine art of "skiptracing" delinquent borrowers requires the involvement of conversations with friends, neighbors, relatives, and business associates. Not only does this take much time and incur great expense, it inevitably results in a degree of embarrassment for many borrowers which could have been avoided if the student loan guarantor had knowledge of the borrower's current whereabouts. The two federal sources which could assist in the location of missing borrowers are:

A. The Internal Revenue Service

The Internal Revenue Service could be helpful, but could not answer the entire problem because many of the student borrowers do not file income tax returns after leaving school for a period of time.

1. Last Known Address—Because of the lapse of time between the filing date of the return and the date the information is processed and filed by the I.R.S., this information would be obsolete in many cases, but still very helpful in others.

2. Name of Spouse—Locating females who subsequently have married after receiving an educational loan is very difficult. The new surname is often not known, and any telephone listings would be under the spouse's name.

3. Name of Employer—Even if a tentative address is received by a guarantor for a missing student, it often is impossible to reach him or her during the day (the guarantor's working hours) if the borrower is working. The guarantor often has to waste time identifying neighbors through "criss cross" reference books, and then calling the neighbors to see if they know where the borrower is employed.

B. The Social Security Administration

The Social Security Administration has more current (and therefore more valuable) data on its records. It also is a more logical source of information than the IRS if only because it is a branch of HEW, the Department responsible for the guaranteed loan functions. It seems grossly inefficient for the Commissioner of Education to spend huge sums of money to locate borrowers who owe HEW some money if the Commissioner of Social Security knows where they can be located. This is hardly a situation where the "fox" should be given a head start and a sporting chance merely for the excitement of the hunt.

There is another means by which the S.S.A. could be of assistance in recovering these government funds which could serve as an alternative to the S.S.A. providing current information on the missing borrowers. The S.S.A. could be directed to undertake the mailing of delinquency notices to the address of the borrower last known to them without divulging that address. This would prove a less ecective alternative because it precludes any telephone follow-up to the letter which usually is necessary in many cases. However, it would motivate many missing borrowers to respond to their guarantors, and, therefore, it would result in a considerable savings in administrative expenses to H.E.W. for that reason.

II. BANKRUPTCY: IS IT AN EASY ALTERNATIVE TO REPAYMENT?

Guarantors are becoming increasingly alarmed at the number of students who are deliberately choosing bankruptcy upon graduation as an alternative to repaying their loan. There are many motivating causes:

1. Borrowers would like to get the debt off of their shoulders before they begin to work and accumulate assets.

2. There really isn't the social stigma there once was in filing bankruptcy. In fact, among the borrower's peers, often the contrary is true.

3. There really do not exist insurmountable credit restrictions on recent bankrupts. In fact, some creditors will show preferrenial treatment to recent bankrupts because of the knowledge that the prospective borrower can't file for bankruptcy again for several years.

4. Some borrower's just want to "rip off" the government.

Many guarantors believe that many student loan bankruptcy proceedings are truly unnecessary, and some appear premeditated. Since about90% of all student loan bankruptcies occur within five years after the borrower leaves school, a five year "moratorium" on student loan dischargeability would be a most helpful legislative amendment. The "premeditated bankruptcy" case would be reluctant to file after the five-year period because a certain amount of assets would have been accumulated by that time. One could rely on the good judgment of the state and federal employees to not harass unnecessarily the true poverty cases during that period of time since their time always could be put to more efficient use attempting collecting from accounts where income and assets have been discovered.

If such an amendment is considered, care should be given in defining an "educational loan". Minimally, the amendment should include all loans covered under Title IV of the Higher Education Act of 1965 as amended. It probably should be expanded to include any loans funded by the governments of the United States, or an individual state, county, or municipality. Serious debate would have to be given as to whether to extend coverage to loans by commercial financial institutions, private foundations, schools, relatives, etc.

III. LEVELS OF INDEBTEDNESS:

ARE STUDENTS BEING FORCED TO MORTGAGE THEIR FUTURE?

There is no doubt that the $115 per month minimum payment from a student who borrows the aggregate statutory maximum will contribute to a higher default rate. However, as long as adequate alternative sources of aid are not available, such levels of borrowing will remain necessary for some students. And, as long as the private capital of the lending community is to be used instead of directly appropriated government funds, there is considerable doubt as to whether the current 10 year repayment period maximum should be extended. Many lenders already are disenchanted that the period is even that long. However, the manner in which aggregate undergraduata maximum of $7,500 is distributed among the individual academic years could also be an item which is unnecessarily compounding the default problem. There are two issues to be considered:

1. What has the law done to our college seniors?

The yearly maximum under the law is $2,500. The maximum an undergraduate may borrow is $7,500. Many students will innocently borrow their full undergraduate entitlement in their freshman, sophomore, and junior years. "Cutting a student off" in his last year of school can result in two problems: (a) he may be forced to leave school and therefore not realize his full earning capacity; or, (b) he may develop and rationalize a bitter or negative attitude towards the program and the repayment of his loan.

2. The High Risk Year

A student's first year of post-secondary education is a testing ground for many students. Can they make it in college? Have they chosen the right vocation? Have they chosen the right school or were they a victim of a smooth recruiter? Many students don't make it beyond a few weeks of study. Thousands leave school within weeks of the first day of class, with no greater skills or earning power, but now with a debt of up to $2,500 (instead of just $1,500) to show for their few weeks experience. Many are bitter; many won't pay their debts.

There are questions as to whether a first year maximum of $2,500 is really necessary. A freshman aspiring to a high-cost ivy league school is usually dependent on his parents and such families usually have some things saved which will help defray expenses for at least one or two years. It is the later years that the financial squeeze is the greatest.

It is for these reasons that there might be some wisdom in considering a legislative amendment which would relate the yearly entitlement to the aggregate entitlement for undergraduates and still accommodate the acquisition of a baccalaurate degree. The ideal yearly entitlement schedule would take the form of graduated entitlements.

IV. PROMISSORY NOTE LIMITATIONS:

ARE THEY INHIBITING EFFECTIVE COLLECTION EFFORTS?

There are a few restrictions placed on lenders in the writing of promissory notes which, if eliminated, could assist in the reduction of the default problem.

1. The "nine month" rule.

The "nine month" rule prohibits any lended from executing a Note whose due date of the first payment is earlier than nine months from the date a student left school.

a. Experienced collectors will indicate that the first payment is the critical payment in the collection process, and anything which inhibits the collection of that payment could cause the entire account to default.

b. Although a student is permitted to "pre-pay" on his account at any time during the nine month grace period, such payments must be wholly deducted from the principal amount of the account if the student is eligible for interest benefits, and the government must be billed for interest on the declining balance. This provides for fantastic bookkeeping programs. But, for this reason, many lenders feel the necessity to discourage such payments (or they certainly don't encourage them), and it is just an extremely bad credit principal to discourage the payment of any money.

c. Payout Notes cannot be written with the due date of the first payment any earlier than nine months after cessation of full-time study. This has at various times caused incredulity or anger from students who want to begin regular monthly payment two or three months after they finish school, and they want their copy of the note and the payment schedule at that time.

d. Because many students graduate or otherwise terminate their education in June, the inflexible nine month restriction causes a huge portion of the lender's yearly collections work on account conversions to occur in a one month period (March). This overloads the lender, cuts down his efficiency, and causes him to do a less adequate job than would be possible had the work load been more evenly distributed.

For the reasons stated above, pertinent legislation should be amended to provide that the borrower and lender may mutually agree to begin repayment at any time after the borrower terminates his education (with any applicable interest benefits to cease one month before the due date of his first payment). Such period of time is not to exceed 12 months. For the borrower's protection, it should be indicated that this agreement must occur, and perhaps in writing, after the borrower finishes school, and not at the time he makes application for a loan. Further, it should be noted that a borrower's failure to comply with such an agreement to make his first payment before the end of the nine month grace period, is not an event of default. (If this amendment causes the nine month terminology to be removed from the Act, care should be exercised that it does not remove with a guarantors authority to set his maximum grace period at nine months since not all guarantors allow a twelve month grace period.)

2. The "five year" rule.

The "five year" rule prohibits any lender from executing a Payout Note whose schedule of payments is less than 60 months (unless the debt is under $1,800).

a. The "five year" rule has instilled bad relations with borrowers who want to repay their loans more rapidly than in five years, and who want their note and payment book (or schedule) to reflect their actual payments.

b. The "five year" rule greatly complicates matters for lenders if he must write a Payout Note, and set up his computer records, on a 60 month basis at $45 per month while the student is paying $60 per month. In such a case, the student will "prepay" one full payment every three payments. After a few payments, he could lose contact with the lender for several months before the computer would indicate that the account was past due. This is a very undesirable situation.

c. The longer repayment period required by the "five year" rule results in greater interest charges to the student than would a shorter repayment period requested by the student.

For the reasons stated above, pertanent legislation should be amended to provide that the borrower and lender may mutually agree to a repayment schedule of less than five years. For the borrower's protection, it should be indicated that this agreement (in writing?), must occur after the borrower finishes school, and not at the time he makes application for a loan.

Further, a lender should be prohibited from filing a default claim on such a note until he demonstrates that he has sent in writing to the borrower's last known address an offer to refinance the note to an alternative repayment schedule having payments not greater than would have been the payments had the original "total of payments" been financed over 60 months. Further, a default claim cannot be filed until the borrower has rejected in writing such an offer or has not responded to the offer for a period of 30 days.

V. DECLINE OF THE "THIRD PARTY LENDER": DOES IT AFFECT REPAYMENT?

A "third party lender" is a source of funds other than institution or firm marketing the product. In the guaranteed students loan program, any lender other than the school is a "third party lender".

A. How it affects the student's attitude toward repayment.

1. First, it must be established that the student's attitude it of vital importance. The vast majority of the money spent by the Office of Education or guarantee agencies on collections is because of attitude problems. If students only defaulted because they couldn't make their schedule monthly payments, the guarantor would simply have to maintain a minimal staff of "financial counselors" to establish a new, lower monthly payment tailored to the bor-

rower's financial situation. It could be as low as one dollar per month as a token of good faith until the financial situation might change. If there were no attitude problems, then all accounts would be paying their guarantor something. The "skip" problem would not exist.

2. An analogy can demonstrate the value of a third party lender in a commercial transaction. If a consumer bought a toaster from a department store which didn't work when brought home, and if he had charged that toaster on the store's charge account plan, he most likely would withhold payment until he received some type of satisfaction. If he had borrowed $20 from his neighbor until payday, his first inclination would be to repay his neighbor (it wasn't his fault the toaster didn't work), and settle his grievance with the department store separately.

3. The analogy can be transferred to the student who "charges" his education on his schools "deferred tuition" plan. If the student feels he did not receive an education worth the value placed on it by his school, if he feels that any part of his education was misrepresented by a school recruitment representative, he is unlikely to pay his deferred tuition charges (as he considers them) when they come due. On the other hand, if he had borrowed from a third party who is disassociated from his dissatisfaction with the school, he is more likely to honor his commitment to this lender.

B. How it affects the behavior of the lender

1. Potential conflict of interest

a. Long experience has shown that proper collections work starts with the first contact with the borrower at the time the loan is made. Attitudes toward repayment begin here. Problems exist, however, when we ask our schools to reconcile the guarantor's need for a crisp, no nonsense credit interview impressing on the borrower the seriousness of the financial burden he is undertaking with the school's need to recruit the student. A vacuum cleaner salesman who dwells on the terms of his installment contract will lose sales, so the majority of his time with a customer is spent selling the product.

It would appear that a person responsible for recruiting students would have the same dilemma. What will the recruiter do if the type of credit discussion that a student would get (and needs) from a bank might frighten off the prospect? The prime difference is clear. A recruiter has as his prime interest the enrolling of the prospective student. A bank officer has as his prime interest the ultimate collection of the account. "Big business" never will put the responsibility for credit and sales in the same hands.

b. Experience, Facilities, and Staff. As one lender succinctly put it: "I'm not offering courses in zoology, so why should (   ) University be a lender?" Stated another way, quality suffers if each should start meddling in each other's profession. Banks and other commercial lenders have years of experience in the lending field. They have existing computer programs and other systems to handle credit transactions. A school financial aid office, which is usually overworked and understaffed already, cannot begin to match the commercial lending world's professionalism and efficiency. Lending is a small portion of a financial aid office's function. It is the entire life of an Installment Credit Division of a bank. This issue requires serious consideration in light of two conclusions drawn in a FY70 Office of Education study on the NDEA program: (1) "Attitudes toward borrowing appear highly correlated to the borrower's preception to the quality of the loan administration on the part of the institution"; and, (2) "The likelihood of paying on schedule and of being delinquent are closely related to the borrower's preception of administrative quality."

C. Past Performances of Schools as Lenders

Before any serious consideration is given to expanding the participation of schools as lenders in the guaranteed student loan program, careful study should be given to the performance of colleges and universities in that role in the National Direct Student Loan Program. It has been a long time since the Office of Education has furnished summarized data on the schools' yearly fiscal operations report to determine the percentage of NDSL accounts delinquent as compared to accounts due, both collected and uncollected. Conversations with various schools reveal this percentage to be many times that of the comparable statistics in the guaranteed student loan program. This should be verified or disputed by statistical proof in the immediate future.

D. Variations on Repayment Schedules

Being viewed with a wary eye by most guarantors, are some of the varying forms of repayment schedules being offered by schools who function as lenders. The two common variations are:

1. A Graduated Repayment Schedule—On such a schedule all payments are predetermined, with the early payments being smaller than the later program.
2. An Income-Contingent Repayment System—On a pure contingent schedule, there is no precomputed schedule, but a student merely pays a fixed percentage of his income. There are variations on the theme where a schedule is established, but portions of the payment can be deferred by the signing of another note to lower the net payment to a fixed percentage of income.
3. The school's point of view.
   - a. The schools feel that it will reduce refaults because both the graduated repayment schedule and the income-contingent repayment system generally result in higher payments later in the schedule when the student is earning more.
   - b. The more candid schools have admitted these features to be a gimmick to make the loans appear more appealing to students. Such features have been used as a recruitment "selling point", or as a means to make the replacing of gift aid with loan aid more palatable to students. "How else are we going to 'sell' these loans to students?" is a direct quota from one aid officer.
4. The guarantor's point of view.
   - a. Guarantors are exceedingly concerned about the ramifications of the immediate preceding item in light of the discussion earlier in this chapter concerning the respective attitudes of the student and school which must occur or be formulated in the initial credit interview.
   - b. Guarantors question the assertion about the lower monthly payments earlier in the schedule as being a deterrent to default. Promoters of these concepts emphasize a student's income as being the one variable which determines a student's ability to make payments on his loan and completely ignore a second important variable which is the other obligations which a student must pay from his income. While incomes do tend to increase after a student's graduation, it appears to many experienced student loan administrators that his personal financial responsibilities increase at even a greater rate over the same period of time. A single male may well be able to afford 10% to 15% of his annual income for the first year or two after graduation. Five years later, with a mortgage, two cars, a wife and two children, he can barely afford to spare 2% of his income. And, later research may prove that the false sense of affluence imagined because of the relatively low initial payments was a contributing factor in the student's eventual financial over-extension, perhaps leading to default. Many experience default collectors believe that it would be the most serious of mistakes to not seek the maximum dollar available from a student before other large amounts of credit obligations are accumulated. Such an approach does not necessarily work a hardship on the student, but only delays a significant escalation in his standard of living for a couple of years, thus preventing the hardship from coming later.
   - c. Many of the schools appear to be looking forward eagerly to SALLIE MAE or another secondary market for purchasing this paper to generate more capital for making more loans. There is great cause to wonder about the marketability of these loans which are alien to the commercial lending institutions. The potential purchasers of such paper would be extremely limited because of the administrative complexities surrounding especially the income-contingent repayment system.

These variations are possible under the current legislation because any references to repayment specify only monthly payments, not "equal" monthly payments. Most guarantors feel uneasy because the law was in all other cases appearing to be written to accomodate the guarantee of loans which are patterned after the regular consumer loans made by banks, and there is doubt that other types of repayment schedules were in the minds of the legislative authors. The time has come to legitimatize such repayment variations by an expression of Congressional intent, or to eliminate their eligibility under the current Guaranteed Student Loan Program by inserting the word "equal" before legislative references to the student's monthly payments.

E. The philosophical considerations

1. Equal access to available funds. Early in the program, it became obvious that certain wealthy colleges and universities and certain large proprietary schools had the financial resources to induce commercial lenders to give preferential treatment to their students, to the disadvantage of students wanting to attend less affluent schools. In an attempt to prevent available funds from being siphoned off, the following regulation was published in the Federal Register (Sec. 177.6(e)(1))

"No points, premiums or additional interest of any kind may be paid to any eligible lender in order to secure funds for making loans or to induce such a lender to make loans to the students of a particular institution or any particular category of students, and except in circumstances approved by the Commissioner, notes (or any interest in notes) evidencing loans made by educational institutions shall not be sold or otherwise transferred at discount."

This regulation was promulgated in an attempt to insure that all prospective borrowers would have some measure of "equal access" to available loan funds at a bank. However, shortly after its promulgation, the purpose of this regulation was circumvented by a wholly legal maneuver which entailed merely changing the name of the lender of record in these school/lender partnerships. The name of the lender of record was changed from that of the commercial financial institution to that of the school. The money now was technically loaned by financial institution to the school rather than to the student. The points, premiums, and inducements were renamed service charges which were paid to the financial institution for doing the paperwork and collection. While such arrangements live within the letter of the regulation it is questionable as to whether they live within the spirit of the regulation. The inescapable conclusion is that the student who is attending a school who will "borrow" the money from a commercial lender on his behalf has far greater access to that lender's money than the student who approaches the lender without his school's intercession. While the legal difference is apparent, is the net effect any different than the inequality of opportunity which existed prior to the regulation between two students if one attended a school which was willing to pay a lender a premium for making him a loan and the other student was attending a school which could not afford to do the same?

2. The student as a consumer. The original concept of this program provided for "student consumerism" which placed the dollar in a student's hands before he shopped for a school, not vice versa. This idea of the student consumer with educational dollars to spend permitted him to make his choice of schools based upon his educational needs, not his financial needs. Under the student consumer concept, the educationally sound schools would prosper, the unsound would wither for lack of students. When a student's access to guaranteed loan funds is determined by his school's wealth, the syndrome of the "rich getting richer and the poor getting poorer" occurs. In this case it is the financially sound schools which prosper, and the financially struggling schools (regardless of academic excellence) will wither for lack of students.

3. Who pays the costs? There is no question that this program has some features which makes it somewhat expensive to administer. Early in the history of the program, there were reports that some of the commercial lenders were charging borrowers "application fees" for processing their loans. Upon a determination by program officials that the interest rate received by lenders should be adequate remuneration for the lender, and with a further commitment in the form of a changeable "special allowance", the following regulation was published in the Federal Register (Sec. 177).(e)(2)

"In no event may the costs of making a loan under this part (except those specifically provided for in this section) be passed on (in the form of higher tuition charges or otherwise) to the borrower."

Obviously, schools functioning as lenders have considerable administrative costs associated with this program. It is reasonable to suppose that their costs are even greater than those of a commercial lender who already has in operation certain installment loan procedures and operations which they might employ in the student loan program without having to hire additional staff, write new computer programs, etc. Commercial lenders are expected to administer this program out of the difference between their "cost of money" and the return on the loan. However, the school's "cost of money" as they borrow it is usually (or nearly) equal to the interest return on the loan. It becomes, therefore, almost inevitable that the charges of program administration will be passed on to students who borrow from schools rather than financial institutions, especially in the case of students attending tuition-dependent schools without endowments, alumni contributions, government subsidies, etc.

4. The Universal Eligibility Problem. When the original guaranteed student loan legislation was constructed, the Congress established parameters within which the state guarantee agencies would have to establish their individual eligibility criteria. It should surprise no one that as each state deliberated separately, differences would occur which were still wholly acceptable under the law.

The student group most affected by the limited state autonomy was the home study student who was not considered an eligible borrower in several states. Understandably, the home study schools sought lender status to bring the benefits of the program to their students. Quite another matter, however, are the large universities and vocational schools whose students have eligibility in every state of the union, but who sought "lender status" for recruitment leverage or other purposes.

However, if a decision were ever made to phase out the schools who are lenders, the eligibility of their students would have to be assured from another source. The Congress could accomplish this by re-examining and modifying the perimeters within which they will permit a state to function, giving the state sufficient time to amend its legislation to make the decision to reject the changes and allow the Federal program to come in and take over.

APPENDIX D

Correspondence and other Miscellaneous Materials Submitted for the Record.

AMERICAN ASSOCIATION OF
STATE COLLEGES AND UNIVERSITIES,
Washington, D.C., February 12, 1974.

HON. JAMES G. O'HARA,
House of Representatives,
Washington, D.C.

DEAR MR. O'HARA: In answer to your letter of February 7, the American Association of State Colleges and Universities is joining in testimony on the Guaranteed Student Loan Program on February 13, with the land-grant universities and other associations.

We are very much in agreement with your amendment, providing for no means test for students with family incomes below $20,000 and for maximum loans of $2,000. We also believe that the whole GSLP program needs a careful review.

We have appreciated very much your dedicated work on student aid legislation and other matters of concern to higher education. Please let us know whether we can be of assistance to you.

Sincerely,

ALLEN W. OSTAR.

HARVARD UNIVERSITY STUDENT LOAN OFFICE,
Cambridge, Mass., February 18, 1974.

HON. JAMES G. O'HARA,
Sam Rayburn Office Building,
Washington, D.C.

DEAR MR. O'HARA: I write in strong support of your proposal to establish eligibility for the interest subsidy under the Guaranteed Student Loan Program according to a $20,000 adjusted gross income. The needs test has not been a useful instrument for determining eligibility among families up to this income limit.

I do not complain as much about some of the tedious calculations as about real inequities that are involved. Some financial aid officers adhere strictly to the letter of the law; others are far more generous in certifying eligibility for subsidy (and indeed, I have heard OE regional staff urge financial aid officers to qualify *everyone* for the interest subsidy). No program will be perfect, but the standard of an adjusted gross income seems better designed to accomplish the purpose of providing necessary financial assistance to low and modest income families than the current needs test.

I think the maximum loan figure of $2,000 for an amount to be so eligible is generous and justifiable. We have been trying to hold our loans to undergraduates to a maximum of $1,500/year, but increasingly exceptional circumstances make larger loans necessary. I sincerely hope that students from families with modest means will continue to have the flexibility in their financial planning that such a loan figure would provide.

I have been appalled at the recent Administration proposal to eliminate the interest subsidy. Superficially such a proposal may be appealing because it would remove a complexity of terms from the loan program. But the students who now must borrow to stay in school have no way of meeting the cumulative interest costs during their undergraduate years. The possibility of accruing interest has very many problems, both administrative and financial, and will have the effect of discouraging exactly those students whom we most want to help.

I sincerely hope that we may consider a significant step forward in our loan program and go to the $20,000 adjusted gross income, instead of retrogressing under the latest Administration guidance. Please let me know if there is anything I can do to make this case more forcibly.

Yours sincerely,

R. JERROLD GIBSON.

MARYLAND HIGHER EDUCATION LOAN CORP.,
Baltimore, Md., February 20, 1974.

HON. JAMES G. O'HARA,
Rayburn House Office Building,
Washington, D.C.

DEAR SIR: I have been reading and hearing about HR 12523 and other similar bills introduced to amend the guaranteed student loan program, and I am distressed at some of the comments and recommendations that have been made.

I realize that Maryland's student loan program is not one of the giants in the field and possibly does not have some of the same problems experienced by other states, but since "need" was returned to the program last spring our program has grown at the fastest rate in our history. Comparing the period from July 1 to February 19 with the two previous similar periods, you can see that our schools and lenders have been able to overcome the problems caused by the changes.

	Number	Amount
Loan volume July 1 to February 19:		
1973-74	4,712	$5,549,996
1972-73	4,133	4,223,947
1971-72	3,586	3,618,060
1974 increase over:		
1973	579	1,326,049
Percent	(14)	(31)
1972	1,126	1,931,936
Percent	(31)	(53)

Not only has the volume increased but the percentage of unsubsidized loans, which many people have reported as being impossible to find, has increased from 15 to 21% of our total volume.

We have spent quite a bit of time working with our schools and lenders, and while many of them are not overjoyed at the amount of extra work involved under the present system they believe, as I do, that it has resulted in a better program. (I am enclosing a summary of comments made by 15 of our institutions dated July 18, 1973.)

I have read the statement of Mr. Charles Mears, President of United Student Aid Funds, Inc., before the Special Subcommittee and agree wholeheartedly with his comments and recommendations. There are a number of other problems that need correcting if the program is to continue to grow and serve the people for which it was designed. If legislation is enacted to return the eligibility for interest subsidy to some family income figure and the schools are not required to provide a detailed need analysis on each student borrower, I sincerely hope that the legislation will not be as restrictive as the original act but will allow the financial aid officer to make a suggestion or recommendation to the bank to be used in their determination of a "reasonable loan amount".

I think the committee should also look at the section of the law dealing with the grace and repayment periods. Under existing law any student wishing to begin his repayment earlier than nine months after graduation is barred from doing so, and any student desiring to repay his loan in less than five years—with the resulting reduction in interest costs to him—may not be given a note showing that shorter repayment period.

Defaults and the collection of claims continue to receive much publicity—some of it quite a bit less than accurate. Unless there are some changes to remove not only the lack of incentive but actual "disincentives" to guarantee agencies to exert time, effort and money to collect defaulted loans, there cannot be the improvement we all desire. Under the federally insured program the Federal Government assumes 100% of the default costs and 100% of the collection costs, but under reinsurance agreements with the states operating their own programs the Federal Government will assume 80% of the original default, but all of the collections costs after default must be borne by the state agency. This means that a state can be reimbursed for 80% of a defaulted loan from the Office of Education under reinsurance, spend money to collect the loan from a defaulted borrower, and then return 80% of the total collected to the Commissioner of Education before any deduction is made for its collections costs. From a purely dollar-and-cents approach a state agency would be better off to take its 80% reinsurance and forget about any further collection effort, because it is required to repay more to the Commission than it nets from the student. Is this inequity really the intent of Congress?

This program has made it possible for thousands of young Americans to attend the college or vocational school of their choice and thousands more will be depending on it in the future. A quick change in the method of determining subsidy may or may not help to provide more loans but it is extremely important that these other problems be considered if we are to continue to help students in the future. Please don't let them down!

Sincerely,

James A. Leamer, Jr.,
Executive Director.

Enclosure:

Maryland Higher Education Loan Corp.,
Baltimore, Md., July 18, 1973.

As a result of problems reported by guarantee agencies in other states I have discussed the program and its possible problems with several college financial aid officers and bank student loan officers today. Shown below are the highlights of their comments.

From a community college in western Maryland: "Not many problems. Getting great bank cooperation. Some high income parents won't complete a PCS. Haven't had any trouble and I'm willing to do my part in making the program work."

From a college in southern central Maryland: "Banks are doing very well. Families with incomes in the $16,000 range are not applying this year but most of them are from out of state where the banks will not make unsubsidized loans. Another change is all we need to wreck this program."

From a private colege in central Maryland: "I have nothing negative to report. Everything is going very welll. Banks are cooperating 100%. Under this system the people who should get the subsidy are getting it."

From a college in the Baltimore area: "Volume is up. More students than ever are applying. I have no complaints. We were delayed for awhile by the turn around time on the FAS but we are now on schedule."

From a college in the Baltimore area: "We have been processing more student loan applications than ever before. In fact we are finding a terrific increase. There has been a slow-down in handling the paper because many people are not completing the forms properly and we must wait for the applications to be redone. Paper work is a problem and the 1260 discourages some students and parents."

From a Baltimore lender: "Change? Oh God no! Paper work and forms are backing up at the schools because of earlier delays at Princeton. We have made more loans this year to date than ever before at this time."

From a northeastern Maryland community college: "The PCS is stopping some people. All financial aid is moving slower than in previous years but we see no crisis and are not ready to push the panic button. We expect to be in good shape by August 1."

From a Baltimore bank: "Nothing to fault with the program. Actually this is a better program than the old one because we can help more people and help those who need it most. It is working, don't change it."

From a university: "We see no problem. We have a communications gap between our office and some of the banks but it's getting better."

From a Baltimore bank: "We are running right on schedule. Do we need a change? Don't let them change anything. It's a little tougher on the schools but they are doing what they should have been doing before. It has helped us. It's getting the money to the people who need it. Don't change."

From a bank in southern central Maryland: "A few families don't want to file the PCS but we see no maor problems. We are experiencing quite an increase in loan volume."

From a bank in western Maryland: "No problem. Our volume is up. Our approvals are running ahead of last year with quite a few still in the pipeline. Loans are going where they are needed most. We are working out the problems as we go along. This is no time to change."

From a bank in southern Maryland: "No problem. The system is working for me. We will have the same or greater volume this year even though more work is involved. We see some unfair results from applying the CSS formula and hope this can be improved."

From a bank in the Washington D.C. area: "We intend to make more loans this year. We have had some minor problems with the supplement but in general it is working well."

From a bank in the Washington D.C. area: "We will double last year's loan volume, from a little less than $500,000 to $1,000,000."

The number of loans guaranteed between February 1 and July 18, 1973 increased 8.7% over the same period in 1972, and 12.3% for the same period in 1971. Dollar volume has shown light increase of 9.3% and 12.4%.

New York State Financial Aid Administrators Association,
Buffalo, N.Y., February 21, 1974.

Hon. James G. O'Hara,
Chairman, Special Subcommittee on Education,
Rayburn House Office Building, Washington, D.C.

Dear Representative O'Hara: Students, financial aid administrators, and lenders are grateful for the Congress' efforts to decrease the red tape, paperwork and the time it takes to process guaranteed student loans.

I am not convinced, however, these are sufficient and logical reasons for altering the fundamental purpose of the Guaranteed Student Loan Program (GSLP). Paperwork and the length of processing time are operational concerns and by concentrating on these concerns suggests that the means justify the end.

Your main concern should be to decide finally the purpose of GSLP: Are these loans to be loans of convenience or are they loans of necessity? Confusion still prevails on this issue. With the enactment of the Higher Education Amendments of 1972 (PL92–318), it seemed clear that guaranteed loans were to be approved if financial need could be demonstrated. Then the question was raised whether a guaranteed loan could replace parental contribution when determining a student's eligibility for aid under the other federal programs—National Direct Student Loans, College Work-Study, and Supplementary Educational Opportunity Grants. Separate divisions of the U.S. Office of Education offered conflicting views on this point, and the matter was referred to legal counsel. Nine months later a final decision is still pending.

You must decide whether the opportunity for students to borrow for college is either the result of personal choice or because of actual financial reasons. While NYSFAAA is uncommitted to either option at this time, we should like to stress that GSLP should not attempt to serve both purposes, which would be the consequence of the proposals to waive the need test requirement for students from families with incomes below an arbitrary level. Such a policy is unfair and inconsistent. Furthermore, while such a policy makes it easier for more students to obtain loans, it also re-opens the possibility of more students borrowing needlessly as happened before a need test was required.

In sum, NYSFAAA urges that Congress unequivocally designate the purpose of the GSLP in order to, first, clarify the proper relation of guaranteed loans to other federal aid programs, and secondly, to provide clear direction for the U.S. Office of Education, lenders, state guarantee agencies, and financial aid administrators in their cooperative attempt to make the program administratively more manageable.

Sincerely,

Arthur J. Fritz,
President, NYSFAAA.

NEW YORK HIGHER EDUCATION ASSISTANCE CORP.,
Albany, N. Y., March 7, 1974.

HON. JAMES G. O'HARA,
Chairman, Subcommittee on Higher Education,
House of Representatives,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: A copy of a February 21 letter to you from Arthur J. Fritz, Director of Financial Aid for Syracuse University and President of the New York State Financial Aid Administrators Association, was directed to me. The position of the New York Higher Education Assistance Corporation is not stated in the letter.

We stand in favor of eliminating the needs analysis for borrowers under the $15,000 adjusted income figure. In fact we would support a higher level of adjusted income in order to offer optimal use of the program.

The guaranteed student loan program can be described by the word "assistance". The purpose of the New York Higher Education Assistance Corporation, as originally conceived and as witnessed by its growth and enviable record of service, is to improve the higher and vocational educational opportunities of people by guaranteeing loans to assist them in meeting their expenses.

The program can be most constructive in an unencumbered market place where the student, fully responsible for his credit reputation, is the consumer with the privilege of selecting the best possible school and the most convenient lender.

Sincerely,

J. W. MIRANDON, *President.*

NEW YORK INSTITUTE OF TECHNOLOGY,
Westbury, L.I., N.Y., February 15, 1974.

REPRESENTATIVE JAMES O'HARA,
House Office Building,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: As a Financial Aid Director and a member of the Executive Council of the New York State Financial Aid Administrators Association, I would like to express my strong opposition to any legislative change ending the use of need analysis for students from families with incomes below $15,000 who are applying for aid under the various state guaranteed loan programs.

While the pressure for such a change is well intended, it would I think be ill advised for two reasons:

1. It would remove any effective control now held by financial aid officers to prevent low income students from overborrowing to get funds over and above their reasonable computed need. Needless to say, such overborrowing has important implications for future default and bankruptcy rates.
2. For the $9,000 to $15,000 lower middle class applicant the present HEW—Office of Education system allows great administrative flexibility limited only by the need for "reasonable documentation". What is needed is clear, concise communication from HEW-OE stressing this follow up by a series of workshops at the regional level to systematize approach. Clearly, there should be no case where a student's chance for an education is hurt through a loan denial. Just as clearly there should be no invitation to students to take nuneeded loans or for their parents to regard the Guaranteed Loan Program as primarily intended to provide loans of convenience.

Sincerely,

ARNOLD NEIDERBACH,
Financial Aid Director.

THE CITY UNIVERSITY OF NEW YORK,
OFFICE OF FEDERAL RELATIONS,
Washington, D.C., February 27, 1974.

HON. JAMES G. O'HARA,
Chairman,
Special Subcommittee on Education,
Cannon House Office Building,
Washington, D.C.

DEAR CONGRESSMAN O'HARA: On behalf of the City University of New York—also, as a regular observer and occasional witness before your Subcommittee—

may I commend you for the thoughtful and thorough manner in which you are conducting a review of federal student assistance policy.

Because of our deep regard for the Committee's work, it is with considerable hesitation that we express concern about the proposal to eliminate effective student need testing under the guaranteed loan program.

The real problem facing guaranteed loans is that very limited funds are being made available by lending institutions for that purpose. The legislation before your Committee does not address that problem, and it would not add one dollar to the available pool of loan monies.

When funds are limited, it is inevitable that access to those funds will be limited as well. In the Higher Education Amendments of 1972, Congress determined that access to guaranteed loans should be based on need, like any other form of student financial aid. Accepting the fact of limited funds, what is a better basis than "need" for determining access to them?

A needs analysis system, however imperfect, is no more nor less than a way to certify need, although the factors constituting need under the guaranteed loan program are rightly broader than the factors that constitute need under the other student aid programs.

When loans were solely in the discretion of lending institutions, low income and lower-middle income students often found themselves last in line for the limited funds being offered. Now that they are armed with certification from the college, and those without need are not so certified, these students have a fair chance to obtain loans when the other sources of student aid prove inadequate.

Returning to the pre-needs analysis system will return us to the danger that Congress sought to avoid in 1972: the loans be neither frivolously sought nor given. CUNY believes that this legislative intention still has merit, and sees no compelling reason for undoing it.

Granting that the volume of loans has declined, there is little evidence to suggest that the needs test is the most important cause of that decline.

Also, it has never been persuasively argued that the system is intrinsically too inflexible to permit loans in exceptional circumstances. In fact, the situation in New York State, where loans have declined only 18 percent compared to a national average of 2 percent, suggests that the problem may be more administrative than legislative in nature. If persons who really need loans are not getting them, it is probably because some administrators are not exercising all the options open to them.

If, on the other hand, students who do *not* need loans are unable to get them, then the needs analysis system is doing the job Congress intended. The cost of this program is too high and the monies available for student assistance are too small for the government to subsidize loans on demand.

If the way that need is determined is unrealistic, then it can be made more realistic. Moreover, CUNY will welcome a thorough re-examination of the guaranteed loan program. However, until these and other issues are studied more carefully, the City University of New York is reluctant to join its friends on the Subcommittee and in the education community in support of this bill.

Sincerely,

LAWRENCE N. GOLD,
Assistant Director.

THE OHIO STATE UNIVERSITY,
February 11, 1974.

Hon. JAMES G. O'HARA,
Rayburn House Office Building,
Washington, D.C.

DEAR SIR: Knowing of your interest in the problems currently being encountered by the financial aid officers and students all across the country in the Guarantee Bank Loan Program, I thought it would be of interest to you to see the statistics for the calendar year 1973 as compared to 1972 at The Ohio State University.

Listed below for your information are the statistics concerning the reduction in the number of loans approved by the Ohio Student Loan Commission for our students and the dollar amounts included in those loans.

	Columbus	Marion	Mansfield	Lima	Newark
1972	3, 378	9	41	43	36
1973	2, 294	1	3	1	1

Dollar amounts represented by the above figures are as follows:

	Columbus	Marion	Mansfield	Lima	Newark
1972	$4, 348, 606	$11, 700	$51, 794	$50, 964	$34, 010
1973	3, 274, 767	1, 065	2, 850	1, 500	1, 500

Based on our experience with the number of students and parents we meet with daily in regard to this program, we think that return to the $15,000 adjusted effective income with a $1,500 maximum loan without regard to need is certainly the best available option at this time. We also believe that those parents and students whose family incomes exceed that guideline should be allowed access to these loans based on their particular financial need.

If you wish any further information in regard to our thoughts in this program, please don't hesitate to contact us.

Sincerely yours,

RODNEY J. HARRISON, *Director.*

CLAYTON, MIS., *February 25, 1974.*

Hon. JAMES S. O'HARA,
Washington, D.C.

DEAR SIR: I am presently a student at Washington University in St. Louis; each year, for the past two years I have received $1,500 from a guaranteed federal loan. Without that money, my brother or myself (or my sister who will be attending a university next year) would not be able to afford a college education, even though my parent's income is above $15,000. If, as proposed the guaranteed federal loan program is eliminated or an income level cut-off is used, myself and thousands of other middle class children would lose the privilege of receiving a higher education. Without this program, only the upper and lower class could realistically send their children to college; unless the cost gap between private and public educational institutions was eliminated, an unrealistic prediction. I urge you to keep the present program in existence; it is one of the few programs left on the federal level to benefit all people, regardless of income. Thank you very much.

Sincerely yours,

ANDY ROSENBLATT.

VALDOSTA STATE COLLEGE,
Valdosta, Ga., January 28, 1974.

Hon. JAMES G. O'HARA, *Chairman,*
Special Subcommittee on Education, House of Representatives,
Cannon House Office Building, Washington, D.C.

DEAR REPRESENTATIVE O'HARA: I am enclosing a copy of a recent United Student Aid Fund editorial.

This editorial reflects my views perfectly concerning the federally insured loan program. I ask that your committee give careful consideration to the ideas contained therein.

I appreciate your committee's service in behalf of higher education.

Sincerely,

R. MARTIN MCGIRT, Jr.,
Director of Financial Aid.

Enclosure:

EDITORIAL—FOR A NEEDS TEST—REASONABLY APPLIED

Much of the current opposition to the Needs Test stems from confusion over how the test is supposed to operate and what it is supposed to accomplish. Unfortunately, this confusion is prevalent among students, financial aid officers, and lenders alike. Even those demanding elimination of the test agree that in theory the government should not be subsidizing unneeded student loans. But in practice, they say, the test tilts the scales against the middle-income student. He must prove his need by means of an elaborate financial statement, while in the case of his lower-income classmate other forms of financial aid are more readily available.

We have pointed out for years that the need for money to meet college expenses is at least as critical in some middle-income homes as some low-income homes. It would be grossly unfair to millions of middle-income students if the Needs Test should bar them from receiving interest subsidies or even from taking out guaranteed loans at all.

But the way to protect the middle-income student is not to throw out the Needs Test. It is to apply the test sensibly.

We hope the Office of Education will make completely clear that all students are eligible for interest subsidies where the need is established. It should also be made known that the law permits any student, regardless of need, to receive a non-subsidized loan. Revised regulations should spell out procedures and permit financial aid officers the flexibility they need to carry out their responsibilities. If the loan volume now levels off, with the money going to those who really need it and only to them, that would be a worthy result.

[Mailgram]

Hon. JAMES G. O'HARA, M.C.,
Rayburn Building,
Washington, D.C.

FEBRUARY 19, 1974.

The directer of the Virginia State Education Assistance Authority urges members of the House Education Subcommittee to consider carefully all the problems connected with the insured student loan program, rather than trying to settle these problems by the passage of an amendment eliminating the need test for interest payment eligibility.

Among other questions needing attention are: (1) Adequacy of insurance fees, (2) Equitability of Federal participation in those states having state programs vs. those states that are making no effort, (3) means of conrtolling losses from default, particularly in the Federal program, (4) greater flexibility in repayment terms, and (5) a means of encouraging lenders to make loans when they are not eligible for Federal interest benefits. There are other questions also, including that of how eligibility for interest payments shall be determined.

The subcommittee is urged to consider the entire picture rather than "patching" the program by returning to a criterion for interest payment eligibility which was not satisfactory when it was in use previously. We submit that it would be a mistake to consider the wishes of one quite vocal segment of the constituency without giving thought to other matters of concern.

CHARLES W. HILL,
Director, Virginia State Education Assistance Authority.

WHEELOCK COLLEGE,
Boston, Mass., February 22, 1974.

REPRESENTATIVE JAMES G. O'HARA,
Rayburn House Building,
Washington, D.C.

DEAR REPRESENTATIVE O'HARA: I was deeply concerned to read in the February 15, 1974 issue of *Higher Education and National Affairs* of the recent testimony of Commissioner John Ottina before your sub-committee. His proposal to abolish both the needs test *and* the interest subsidy is wholly unrealistic. It is literally throwing the baby out with the bath water.

While we would all agree that the needs test provision of the Guaranteed Insured Loan Program has caused many problems, I can foresee even more problems if we did away with the interest subsidy benefit altogether, particularly for low-income students. Currently, there is no provision under the Basic Grant program to include the payment of interest on education loans as a legitimate educational expense. If students are "entitled" to receive Basic Grants by virtue of their enrollment in post-secondary educational institutions, they should not be required to spend that money on educational loans.

Secondly, it makes little fiscal sense to me to suggest transferring the burden of interest payments from tax dollars administered by the Department of Health, Education and Welfare in the form of interest subsidies to tax dollars given to students through the Basic Educational Opportunity Grants. Finally, one of the chief reasons banks choose not to make unsubsidized loans, which is what Mr. Ottina suggests, is the extra work involved in collecting the interest. Requiring that all loans granted be unsubsidized, would really discourage banks from participating in the program and from making loans to low-income students. Mr. Ottina hastened to propose that lenders be able to defer interest payments for certain students while they are in school and that the government would then guarantee these charges in addition to the loan principle. Is this not interest subsidy of a different order, but with the burden of decision transferred to the banks? What a temptation to give priority to preferred customers.

I strongly urge that Commissioner Ottina's testimony and proposals on this matter be closely scrutinized.

Respectfully,

Mrs. Ralph E. DeMent,
Director of Financial Aid.